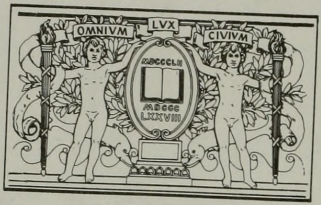
People, Building Neighborhoods

Final Report to The President and The Congress of The United States

The National Commission on Neighborhoods
March 19, 1979
Joseph F. Timilty, Chairman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National Commission on Neighborhoods

March 19, 1979

Jimmy Carter
President of the United States
White House
Washington, D.C.

Dear Mr. President:

With satisfaction and a sense of achievement the National Commission on Neighborhoods submits this final report. In it we have defined a conceptual basis and offered specific recommendations to assure America's neighborhoods, in fact as well as in name, effective influence in national, local and private policy making.

We do not urge throwing dollars at the problems of neighborhoods, but we do not doubt that public resources can bring progress if they are budgeted for programs that help the neighborhoods to help themselves.

This Commission does not suggest that decision making be decentralized in every case, but we conclude emphatically that much more authority can be better exercised, many programs can be better administered, and a higher proportion of public funds can be better spent at the neighborhood level.

The Commission recognizes that inflation, at this time, is a domestic concern that has importance above other issues. However, the specter of uncontrolled prices must not become a rationale for continued insensitivity to neighborhoods. Spiraling costs do great harm to vulnerable low and moderate income families living in urban neighborhoods. With this in mind, the Commission has developed its recommendations to minimize new programs. The orientation in this report is on cost effective means of maximizing public and private resources to better the lives of the largest number of people.

We do not assume that public effort is the sole or sufficient answer. Rather, government must facilitate a revival of private initiative to produce, employ, market, sell, and invest in the neighborhoods of the central cities.

We know that this is a different era than a decade ago, when government often seemed to promise quick solutions. But the fact that government may have overpromised and underperformed then, that it did too little or did it inefficiently, does not prove that we can do little or nothing now.

Frankly, we believe that this nation is obligated to the neighborhoods. The neighborhoods have not been merely neglected, they have been the outright victims of national policies. Housing and highway programs have bypassed or bisected them. Suburban growth and exclusionary zoning have left them overburdened, overtaxed and underserviced. Most of all, racial and economic discrimination, as the Commission concludes, continue to divide America.

The National Commission on Neighborhoods did not compose this report or shape its recommendations solely or primarily in Washington offices removed from neighborhoods, from people. We held hearings and conferences in many places across the country. This is not only our report to you; we hope that it also is, in the truest sense, their report, through us, to their President and their elected representatives in the Congress.

Our work as a Commission is finished, but it is also only preliminary. Now it is time for a national policy that genuinely works in, for, through the neighborhoods, for the people who live there. We respectfully request that a year after submission of this report you, as President, meet with the members of the Commission and review progress in implementing its recommendations. You have taken the vital first step as the first President ever to seek a national policy on neighborhoods.

Respectfully,

The National Commission on Neighborhoods

Joseph F. Timilty

by Joseph F. Timilty, Chairman

The Commissioners

Joseph F. Timilty, Chairman

Ethel D. Allen
Anne Bartley
Representative James J. Blanchard
Nicholas R. Carbone
Gale Cincotta
Senator Jake Garn
Harold W. Greenwood, Jr.
Maynard Jackson, Jr.
Norman Krumholz
David C. Lizarraga
John McClaughry
Victoria Mongiardo
Arthur J. Naparstek
Robert B. O'Brien, Jr.
Representative Joel Pritchard
Senator William Proxmire
Macler C. Shepard
Peter Sandor Ujvagi
Bathrus B. Williams

National Commission on Neighborhoods

The National Commission on Neighborhoods is a 15 month study commission established by the National Neighborhood Policy Act of April, 1977. The Commission is called upon to investigate the causes of neighborhood decline, and to recommend changes in public policy so that the federal government becomes more supportive of neighborhood stability.

The National Commission on Neighborhoods has twenty members. Sixteen are appointed by the President and four are members of Congress. The membership of the Commission reflects a broad ethnic, racial, geographic, and political diversity.

The National Commission on Neighborhoods grew out of the lobbying efforts of neighborhood groups from around the country, particularly in their efforts to combat the unjustified denial of mortgage credit to older urban neighborhoods—redlining. Out of these efforts, including testimony before the Senate Banking, Housing, and Urban Affairs Committee, came the realization that federal policies do not always support our nation's neighborhoods. It became clear that these neighborhoods are an irreplaceable national heritage which must be preserved and built upon. In addition, it was evident that self-help neighborhood efforts have been successful and efficient, many times with little or no government involvement. Community leaders have discovered that government is more responsive when it supports what neighborhoods want than when it imposes programs on neighborhoods.

The National Commission on Neighborhoods is divided into five task forces which have sponsored and reviewed research; drawn upon the experience and expertise of the twenty Commission members; and developed recommendations for changes in public and private policy as they affect neighborhoods. These five task forces investigated the areas of: Economic Development; Reinvestment; Human Services; Fiscal and Legal Obstacles to Neighborhood Revitalization; and Governance—Citizen Involvement and Neighborhood Empowerment.

In addition, the Commission conducted field hearings in Baltimore, Cleveland, St. Louis, Chicago, Los Angeles, and Seattle. The Commission sponsored several issues conferences on reinvestment, the fiscal empowerment of neighborhood organizations, HUD programs, neighborhood institutions, and multi-family housing.

The Commission's final report to President Carter and to Congress was delivered on March 19, 1979. Included in this final report will be recommendations on economic development, housing, neighborhood self-help capacity, and tax codes.

Preface

Those who measure cities by their downtown skylines, city halls or cultural attractions miss the persistent, uneven pulsing of life in those communities-within-communities which are home for the men, women and children who spend twenty-four hours of every day in the cities. Meet them in some other part of their own cities and ask them where they live and they are likely to respond with the given names of their neighborhoods. Whether blessing or burden, the neighborhood helps them know who and what they are.

The National Commission on Neighborhoods has been in a sense an attempt to see whether the federal government could catch lightning in a bottle. That the life of the Commission ends with this report may yet prove to be little more than an episode in the history of a stubborn and vital movement. Lacking the power and public acceptance of the tax revolt, the neighborhood movement owes its strength—and some of its weaknesses—to the diversity that marks the neighborhoods themselves.

Neighborhoods have long been one way of defining class, race and national origin differences in America. Social mobility, prestige and access have often been keyed to the neighborhoods out of which or into which families moved. There was a time when neighborhoods only came to the attention of the larger universe outside when rival forces confronted each other over "block-busting" or "busing" or protests over the placement of public housing or halfway houses. Nor is the time of such inter and intra-neighborhoods clashes behind us.

But what has been new in recent years is what was first the tentative, then the stronger convergence of the people of working class, poor and "mixed" or "marginal" neighborhoods as they have found striking similarities in the problems they face. For all of them it seemed to be true that government had a way of forgetting to ask whose houses were in the paths of the bulldozers; which blocks had the heaviest traffic diverted their way; whose streets seemed to have lowest priority for repairs, and pollution control; why job opportunities, transportation, health facilities and effective crime control seemed always to wind up somewhere else.

Nor did such neighborhoods appear to be doing much better with the private sector decision makers. Home loans and fire insurance were harder to come by, even for thrifty people, or hard-working neighborhood merchants and aspiring business people. Having done what they could as individual citizens and on a neighborhood by neighborhood basis, the pioneers of the movement began talking to each other, forming linkages and making impolite noises about their concerns. First, local, then state and federal officials began feeling from the neighborhoods those tremors that led to anti-redlining and mortgage disclosure legislation, a recognized role for the neighborhoods in public and private reinvestment policies, and the creation of this Commission.

If the Commission hearings had any common thread it would seem to be that considerable wrongheadedness, waste and damage too often result when decisions are made by those who look at problems—and potentials—from the top down. The hearings revealed a cross-sectional slice of the frustration, anger and deprivation of that urban world the tourists seldom see. But that world also clearly contains a wealth of common sense, hard-bought expertise, courage and some very creative notions of what is really required to strengthen and revitalize the communities that lie beyond the steel, glass and stone canyons of urban downtowns.

Having been ignored and ill-treated for so long, urban neighborhoods do not need to be patronized or romanticized. Especially in this time of economic strain and fiscal uncertainty, there is real danger of an exacerbation of racial, class and generational tensions. Those who have had least in the way of good schools, housing and economic opportunity are not guaranteed to be at their most patient and tolerant if there is a scramble over scarce resources. The current stresses arising out of the departure from some older urban neighborhoods of elderly, poor and minority residents under the pressure of more affluent residents moving in is only one evidence that serious gaps of public policy and private initiative remain.

The people of the neighborhoods have served notice that those gaps and others will not be filled unless and until they are also dealt in on both the planning and the implementing. The game may prove a little less comfortable for some of the other players as this happens.

But if those with the power to make critical public and private decisions do begin to heed what some of America's neighborhoods are saying and doing, our cities and our nation will richly benefit.

M. Carl Holman
President
National Urban Coalition

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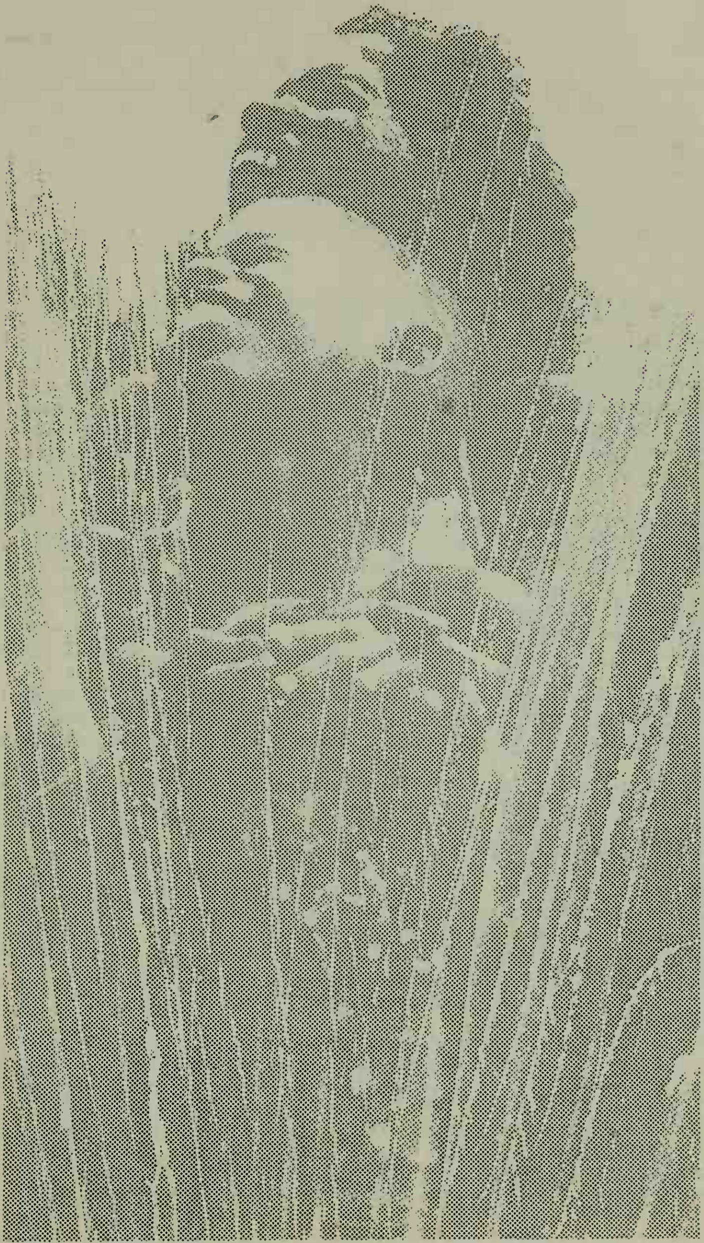


Introduction, Summary and Recommendations

The Problem

The National Commission on Neighborhoods was established by the Congress and appointed by the President in 1977. The Commission's mandate as stated in the enabling legislation was to identify factors contributing to neighborhood decline, especially in the cities, and to recommend legislation and administrative actions to promote neighborhood survival and revival. This report is the first attempt by a national body to approach many issues from a neighborhood viewpoint and therefore, we did not, and could not, cover every related topic. Nonetheless, we regard this report as comprehensive.

The quality of a society is determined by the condition of its neighborhoods—the standard of national life is set in the neighborhoods where people actually live. In this nation, many neighborhoods, most urban and some suburban, by virtue of income, status, and insufficient access to public and private institutions, have become the homes of citizens relegated to second class status. They have become less developed countries inside our own country. The divisions marking off these neighborhoods are not alone racial, for their residents are of every race. The affected neighborhoods are ethnically strong—and ethnically plural.

Vast and expensive programs have failed the neighborhoods and have failed as programs because they have ignored the neighborhoods. The domestic problems of the nation are those of neighborhoods—of low and moderate wage earners, racial minorities, the elderly, and the powerless. The problems they face involve housing, unemployment, inflation, crime, revenue sharing, public services, education, and transportation. To enumerate national issues is to name neighborhood concerns.

Commissioners Arthur Naparstek of the University of Southern California's Washington Public Affairs Center and Gale Cincotta of the National Training and Information Center of Chicago, have written:

> (One) reason for the persistent failure of... programs has been the tendency to perceive the problem on a grand scale. Virtually all efforts to halt the decline of our cities are marked by a failure to define national policy initiatives which serve the varied needs of differing neighborhoods. If we are to speak realistically of preconditions required for effective change, it must be recognized that the neighborhood—not the sprawling, anonymous metropolis—is the key. In real terms, people live in neighborhoods, not cities. In real terms, their investments, emotional as well as economic, are in neighborhoods, not cities. And the city cannot survive if its neighborhoods continue to decline.

Neighborhood organizations do not seek massive new programs, but a new process, a new emphasis, a restructuring of federal, state, and local policies to make them both responsive and effective. They seek to be independent organizations—and to see their neighborhoods become self-sustaining parts of a productive economy, not the colonies of a government grants economy. In the words of State Senator Joseph Timilty, the chairman of the Commission, "The key to revitalized cities is not in tall downtown skylines or in expensive, subsidized bricks and mortar, but in the spirit of the neighborhoods."

This Commission believes that government should support neighborhood initiatives and that it should sustain the level of programs that do or could meet neighborhood needs. Yet this is not another Commission report favoring more government, more money, more programs, and more research as though they were, by themselves, inherent, inevitable answers. While the Commission recommends some minimal additional public expenditures (for example, to facilitate the role of neighborhood organizations), we wish to emphasize that in this area reorganizing current public efforts is a more fundamental requirement. The Commission is convinced, and this report details the many ways, that a more central role for neighborhoods will mean the more efficient use of public resources.

The Commission also wishes to emphasize the indispensable role of private enterprise. The private sector has compounded neighborhood problems; now the private sector can help them. Instead of redlining entire areas, lending institutions can make credit available in sufficient amounts on reasonable terms; insurance companies can offer insurance at rates that reflect real degrees of risk rather than old and false theories based on prejudice. Instead of disinvesting entire neighborhoods, corporate enterprises can create jobs and income there, not merely because it is right, but because it would be profitable.

The Commission urges the nation to see and to grasp the potential of the neighborhood as the focus of an effective urban policy for the 1980's. In the words of Carl Holman, the president of the Urban Coalition, "Without a neighborhood emphasis, any urban policy must flounder for want of a foundation. In neighborhoods lies the real strength of our urban areas and from neighborhoods will come their true revitalization." Government can unloose the bonds and free the energies of the neighborhoods, as Gale Cincotta and Arthur Naparstek have outlined:

> (The) federal government role is twofold: first, to assist the public, private, and the community sectors identify those disincentives which create negative preconditions for change; and second, to provide through model legislation a policy framework which has sufficient scope and power to be of value at all levels of government.

The Alienation of the Neighborhoods

This Commission did not confine its work to Washington, but sought to view neighborhoods where they actually are, to see them not as abstract concepts or a statistical category, but as human realities. The Commission met with individuals and the leaders of community organizations across the country. In public hearings in cities from Baltimore to Chicago, to St. Louis, to Los Angeles, to Seattle, and New York City, we listened to urban residents, to elderly citizens, teenagers, blacks, Puerto Ricans, Mexican-Americans, white ethnics, the unemployed, and the underemployed. The message was the same in city after city, from citizen after citizen: "We've been written off by every major institution that a community—and an individual needs—to survive."

At a hearing in Seattle we were told:

> "You (the federal government) have given a great deal of money to people who are out of our control. We have a problem. You have a solution. That's the premise on which Congress seems to act. . . Your role to date has been disastrous. You have crammed federally funded highways into our town. You have sucked out our middle (income) residents by subsidizing housing construction in

> the suburbs, penalizing those of us in the inner city. You have crazy assessment standards. Your creature FNMA has been the backbone of redlining all across the country. Redlining cheats and ruins the inner cities and builds up the suburbs. They are middle class and they are lily white."

In Chicago the Commission heard:

> "According to most authorities in the field of urbanology and urban planning 'disinvestment' is rampant in the northeastern section of the country. This disinvestment takes the form of a loss of private sector activity, a loss of business, industry and jobs and a loss of middle income households which erodes the tax base of many urban areas. The erosion of a tax base accelerates disinvestments in older areas, and they are less capable of providing basic municipal services to an increasingly dependent and needy population. In short, there is a cycle of disinvestment now prevalent which, if allowed to play itself out, could spell disaster for most major cities."

Such grievances were recurrent. If our lives truly mattered to the decisionmakers who really count, neighborhood residents repeatedly told the Commission, our sons and daughters could find jobs; our neighbors could obtain home improvement loans and homeowners' insurance; our schools would be preparing our children for productive work. We would feel safe on our own streets, in our own neighborhoods.

Now with rising rates of inflation, angry, frustrated people tend to blame the victims—to regard the problem and conceive the enemy as those fellow citizens who have been hurt most by past neglect and now most need the help of government. When the haves feel that they must struggle to keep even, then the have nots may be forced to settle for even less.

Inflation has devalued the purchasing power of all Americans, but lower-income families and people on fixed incomes have been hit hardest. The National Center for Economic Alternatives reported in 1978 that prices of the four basic necessities—food, shelter, medical care, energy—are rising faster than the overall Consumer Price Index. These are the goods and services for which families cannot cut or postpone spending—and on which lower income and urban families must spend a higher percentage of their lesser resources. At the same time, they have reduced employment opportunities, which may be eroded still further in the name of fighting inflation. Ninety-six percent of all jobs paying more than $15,000 a year are held by white males. By conservative estimates, 40 percent of all black teenagers are unemployed.

Such disparities characterize every measure of the standard of life. The United States suffers a higher infant mortality rate than 14 other nations. Disproportionately those deaths include children in the urban neighborhoods of America. Families there lack access to health care on a regular basis that often can prevent serious illness. On the average, wealthy Americans live six years longer than poor people.

In most cities public transportation systems primarily benefit commuters from the suburbs, where most people own automobiles. Yet commuter routes on public transit to take people without cars from urban neighborhoods to expanding job opportunities in the suburbs are almost non-existent. One state transportation administrator defended the lack of bus service from cities to suburban industrial parks and shopping centers with a rationale that reveals a crude racism: "Why spend the money?" he asked. "They don't want to work anyway."

And for less from the economy and from government, the poor continue to pay more. In 1974 an American family of four with an income of $5,000 paid an average of 11.3 percent of adjusted gross income in state and local taxes. A family with an income of $50,000 paid a far smaller percentage—an average of 7.8 percent of income.

Despite all the talk of tax reform, the trend of the tax system is toward even more inequity. A Cambridge Institute study in 1972 showed that wealthy Americans were paying proportionately lower taxes than they were 20 years before—while lower and middle income Americans were paying proportionately higher percentages. This disparity reflected the fact that federal income tax rates remained relatively steady during those 20 years while social security taxes, sales taxes, and property taxes—all highly regressive—increased substantially. Moreover, federal tax credits overwhelmingly favor the wealthy. According to the Brookings Institution, America's 6 million poorest families in a recent year received a total of approximately $90 million in tax credits. The average was $15 each. The 3,000 richest American families that year enjoyed federal tax credits of more than $2 billion—an average of $667,000 a family.

All of this adds up to a startling gap between the incomes of America's haves and have-nots. Lester Thurow, professor of economics and management at Massachusetts Institute of Technology, has calculated that: "The richest 10 percent of our households receive 26.1 percent of our income while the poorest 10 percent receive only 1.7 percent... Blacks earn 69 percent as much as whites; women who work full time earn only 56 percent as much as men. If we look at the distribution of physical wealth, the top 20 percent owns 80 percent of all that can be privately owned in the United States and the bottom 25 percent owns nothing (many of them, in fact, have debts that exceed their assets.)" Of all the world's industrialized nations, only France has a greater degree of income disparity.

The effects of that disparity have become the special problems of urban neighborhoods. The Urban Bishops Coalition of the Episcopal Church, in a 1978 report, described a frightening, unspoken, but emerging national consensus: "The unneeded, unvalued, and threatening minorities are to be isolated, ghettoized and contained... Economic, political, and social decisions have been made to let the cities be the areas of confinement for this underclass."

Of all the residents of distressed urban neighborhoods, blacks, Hispanics, and other minorities are the worst victims. One hundred and sixteen years after the signing of the Emancipation Proclamation, they still face discrimination wherever they live. In the years of migration from rural, impoverished, southern roots, black sharecroppers became the urban poor. Hispanics, tracing their origins from Puerto Rico, Mexico, Cuba, and increasingly from elsewhere in Central and South America, experience many of the problems encountered by previous generations of immigrants. They are the newest arrivals; they were poor when they arrived; they speak another language and are steeped in a different culture. Blacks and Hispanics are concentrated heavily in central cities. While only a quarter of the white population lives there, over half of blacks and nearly half of Hispanics are in the inner city areas. Approximately one-third of blacks and Hispanics are concentrated in the cores of cities with population of 1,000,000 people or more, the oldest, the biggest, and the most beset of American cities.

To be both racially in the minority and to reside in the central cities is to be at a wide comparative disadvantage. In 1977, only 38 percent of minority families living in central cities had both parents living at home. The median income for minority families in central cities was $9,391, as compared to $15,069 for whites in central cities and $12,037 for suburban blacks. Over 15 percent of central city minorities are unemployed—over twice the rate for whites. Among minority teenagers between the ages of 16 and 19, the unemployment rate is almost 50 percent; among minorities between the ages of 20 and 24, the rate is a comparatively better and absolutely staggering 25 percent.

Minorities bear a particular share of the urban crisis. It is impossible to review the data and avoid the stark truth of racial disadvantage. When blacks and whites living in suburbs are compared on indices of social and economic well-being, blacks consistently are less well off than whites. On measures of income and educational attainment, suburban blacks lag behind central city whites; there is no commonly available "suburban advantage" which outweighs the legacy of racism and the effects of continued discrimination.

In 1968 the "Report of the National Advisory Commission on Civil Disorders" concluded that "our nation is moving toward two societies, one black, one white—separate and unequal." That warning has been ignored. The rioting and violent protests of the 1960s have subsided, but the root causes of those disorders persist. They are more deeply entrenched today than they were a decade ago. Institutional racism, classism, and sexism have kept us divided into several societies; we are still separate and unequal. Racism is still the single force most subversive of our domestic tranquility. It is the primary cause of the neighborhood crisis, of redlining, blacklining, and blockbusting.

In 1964, the federal government enacted historic comprehensive civil rights legislation, followed by other laws, to counter the pernicious effects of racism. In the following decade, the laws frequently went unenforced; agencies such as the Equal Employment Opportunity Commission were perennially underfunded and understaffed. The Nixon and Ford administrations regularly misused what staff positions there were as a patronage dumping ground.

The shortcomings are the culmination of nonfeasance and misfeasance. Over a long period, government not only permitted, but positively encouraged, second class neighborhoods based on race. The evidence reviewed by the Commission overwhelmingly shows that urban neighborhoods work best when they are racially and economically diverse. Yet the Federal Housing Administration has been responsible for the emergence of almost completely segregated suburbs. Until 1949, the FHA denied essential insurance to integrated housing. Prior to 1962, the agency had no policy of non-discrimination.

Having borne so heavy a share of neighborhood problems, minorities must have a strong role in shaping a new neighborhood policy. Too often, minority participation in neighborhood development is reactive. The identification and assessment of needs, the evaluation of programs, and the design of new models for further development are firmly in the hands of the majority. Priorities are set and proposals drafted before minority advice or involvement is sought.

The operation of the "old boy" network permeates all levels of policy-making and implementation. This is not necessarily the result of a deliberate exclusionary effort; it reflects the informal contacts among groups dealing with neighborhood development on one hand, and the departments and agencies of the federal government on the other.

Even past programs supposedly designed to help urban minorities often have hurt them instead. From the Ford Foundation "Grey Areas Project," through Federal Urban Renewal, the "War on Poverty," and federal revenue sharing, minority communities have struggled to minimize displacement from central cities and to maintain their community identity. The Urban Renewal Program was once widely regarded in minority communities as "Negro Removal." Minority political efforts have had to squeeze progress from programs that otherwise merely would have made the affluent more affluent and left the minority poorer.

Now minorities are becoming the first and worst casualties of the reverse migration of the affluent back to the central cities. Where minorities once feared displacement due to public actions such as urban renewal, they now face displacement resulting from the operation of free market forces as well. Vernon Jordan of the Urban League has said: "Most blacks live in cities. But many experts are coming up with plans for revitalizing cities by attracting the white middle class back. And they say not one word about the black urban poor." Some who are displaced are bought out. Others are fortunate enough to move up and out. The majority, however, become urban refugees moving from ghetto to ghetto.

Neighborhood Movement

The victims of injustice increasingly decline to accept it. The neighborhoods have been both alienated and unorganized. Indeed they were the natural places both for problems to be felt and solutions to be demanded. America has always been a nation of neighborhoods. The colonists in New England established the first town meetings; the early settlers of Louisiana identified with their parishes. The regiments of the American Revolution were recruited as local units; friends and neighbors organized the companies of the Civil War among themselves.

In the years that followed, we continued to be a nation of neighborhoods primarily because we increasingly became a nation of immigrants. They came not merely to a new land, but to the many neighborhoods to which cousins and acquaintances had already travelled from the villages of the old world. In these neighborhoods, from Dorchester and the South End in Boston, through Murray Hill and the Lower Eastside in New York, to the South Side of Milwaukee and Chinatown in San Francisco, they found a continuity of their cultures, values, and faiths. Seen as a country, America might appear to be a melting pot: seen from the perspective of neighborhoods, it was, and is, a mosaic, one nation of many differing neighborhoods, its essential unity strengthened by its rich diversity.

In 1890, the Western frontier was closed. The year before, Jane Addams had founded Hull House, the first settlement house, in a crowed section of Chicago. The two events both pointed to the same fundamental trend. More and more Americans were moving into neighborhoods that were urban. A century before, in the 1790 census, only 5 percent of Americans could be classified as urban—that is, they lived in places with a population of 2,500 or more. By 1890 the percentage of urban dwellers had soared. World War I then stirred a new wave of immigrants to urban centers, many of them black workers from the South who were needed in defense industries. In 1920, the census reported a demographic watershed: half of all Americans were urban.

World War II brought another era of urbanization: the post-war period brought the era of suburbanization. By 1970, 90 percent of our population lived on 2 percent of our land. The United States, this "chiefly agricultural" land as Thomas Jefferson called it, had been transformed into an overwhelmingly metropolitan, an urban and a suburban, nation. As we became more concentrated, policymakers tended to deal with whole cities, regions, and states, and to miss the neighborhoods, their component parts. Ironically, the more neighborhoods we had, the less attention the neighborhood as such, seemed to command.

Yet people do not live as numbers in an economic report, as the disembodied statistics that distant bureaucracies deal with as though they were the reality rather than a mere representation of it. Middle income, working, and poor neighborhoods alike experience the frustration of government that does too little, costs too much, and denies meaningful influence to the vast majority. Power has been more centralized; people have become more alienated. More Americans live together, yet feel alone. Increasingly government deals with Americans as clients, not citizens; as sources of revenue, but not of authority. For all practical purposes of public policymaking, neighborhoods most often have been treated as non-existent.

Today, the neighborhoods confront the arrogance of bureaucracy, the feeling of officials and experts that they always know better. We are in danger of becoming a diminished democracy divided by a widening gulf between government and the governed. Government proceeds too much from the top down; too often it appears that those at the top believe that that government governs best which governs least responsively.

Federal, state, and local governments do not even have a workable, generally accepted definition of what a neighborhood is. This is another indication of government's inattention to neighborhoods. However, it also has the benefit of having preserved neighborhoods from the imposition of an overly standardized, inevitably incomplete definition. Neighborhoods are residential, industrial, commercial; some are primarily composed of one ethnic or racial group and others are as ethnically racially plural as the entire nation. There is no standard set of characteristics that make a neighborhood; there is no simple, single description accurate for all policymaking purposes. The City of Atlanta's definition is sensible because it is flexible: "Neighborhood means a geographic area either with distinguishing characteristics or in which the residents have a sense of identity and a commonality of perceived interest, or both."

In the last analysis, each neighborhood is what the inhabitants think it is. The only genuinely accurate delineation of a neighborhood is done by the people who live there, work there, retire there, and take pride in themselves as well as their community.

Neighborhoods were self-conscious long before government became conscious of the neighborhood movement. The movement's roots go to the settlement houses, the first stirrings of labor protest and union organizing, and the political self-assertion of the immigrants. In the 1930s and 1940s, activists such as Saul Alinsky pioneered community organizing. Since then, the movement has reached into hundreds of cities and neighborhoods, reflecting a similar yearning of people in all of them to affect the course of their own future. The neighborhood is a natural context in which to express this feeling. A recent survey indicated that Americans closely identify with their neighborhoods, but are relatively indifferent to their cities.

A series of conferences, starting in 1970, called by Monsignor Geno Baroni, then of the National Center for Urban Ethnic Affairs and now Assistant Secretary of Housing and Urban Development, marked a major evolution of the neighborhood movement. The conferences stressed the positive nature of life in urban neighborhoods. They pointed to examples of pluralism, cultural values and ethnicity contributing to strong yet diverse neighborhoods.

A major step was the national neighborhood conference called by Gale Cincotta, executive director of the National Training and Information Center, in 1972. This conference focused on redlining, the denial of credit to entire neighborhoods because they were lower income, blue collar, black or brown, or simply older. For all of them across barriers of race and identity there was a shared interest in resisting redlining. Indeed, the most important result of that 1972 conference was the realization that redlining was not a racial issue, but a convergent one that involved whites as well as racial minorities. (Throughout this report, the term "minorities" means "racial minorities.")

The redlining issue provided the impetus for building a national coalition of community organizations to seek legislation requiring the disclosure of lending patterns. In 1975, as Congress debated Senator William Proxmire's Home Mortgage Disclosure Act, community groups submitted their own studies of those patterns in major cities. After the Act was signed into law, Senator Proxmire commented: "It is hard to recall an issue where the impetus for reform came so directly and so persuasively from the grassroots organizations."

In the past, racism and ethnic bias had limited the strength and scope of the neighborhood movement. They had kept groups with common interests apart. The anti-redlining campaign exemplified a common interest in equality of treatment in lending practices; the outcome demonstrated the success that could be achieved through unity.

In fact, the neighborhood movement was not only consistent with the civil rights movement; the latter was an important model for the former, as it has been for every subsequent effort at citizen organization and protest. The struggle against racial discrimination had shown how grassroots activism could achieve institutional change of a very fundamental kind. Much of the value framework of civil rights leaders such as Malcolm X and Martin Luther King, Jr., paralleled the goals of the leadership and neighborhood residents who became involved in organizing. Both movements represented an attempt to make democracy real—to keep people involved in the system by giving them a say and a stake in the system. They sought to prove to people that they could prevail against the odds. The civil rights and the neighborhood movements have become convergent not merely in theory, but in reality.

The neighborhood movement was a necessary response to the unresponsiveness of government and the irresponsibility of the private sector. The 1970s began with government's not so benign neglect; there was a continuing disinvestment of private capital in urban neighborhoods. Institutional racism and classism created needs to be met by the neighborhood movement.

Continuing needs have brought more and more grassroots organizations into being and action. Typically they have adopted one of two strategies. In the face of institutions that did not serve the neighborhood, some of the organizations, like The East Los Angeles Community Union, in effect have become institutions themselves, raising the money and establishing the structure to deliver a broad range of services to the Hispanic community. Other organizations, such as the National Training and Information Center in Chicago, have been designed to influence policies of existing institutions and the federal government.

Neighborhood groups are often treated as lacking the legitimacy and the presumed competence of formal institutions. Because voluntary associations at the neighborhood level naturally tend to be composed of those who are economically, educationally, and socially unprivileged, they are often viewed as unqualified to assess problems, let alone to develop solutions. However, the diversity of neighborhood groups, which may seem to be a weakness, in fact is an important strength. They can respond flexibly, with different organizational structures, across a range of issues from sanitation services to discriminatory insurance rates. Community development organizations and advocacy groups are best suited to certain tasks; neighborhood government can deal better with problems such as juvenile crime with which larger social institutions deal badly, if at all.

Neighborhood groups, community action groups, public interest, ethnic, and cultural groups at the local level are proof that people will become involved when they are convinced that their involvement can be effective. The alienation from traditional politics reflects a spreading belief that it is no longer relevant—that who wins or loses makes no real difference in the average citizen's life or neighborhood. More Americans may be non-voters, but more of them are also becoming members of the neighborhood movement because it is relevant. It offers at least the prospect of having an impact on the governing process.

For most of this century, the tide flowed in the opposite direction, toward centralization and an increasingly remote government. The Progressive Era set that tide going in many cities with a misguided reform establishing at-large elections, rather than neighborhood districts, for city councils and boards of education. Members theoretically responsible to every voter no longer had to be as responsive to any constituent or neighborhood, and in many places membership of entire councils comes from one section of the city. Today a permanent bureaucracy runs most cities, virtually untouched and unaffected by municipal elections. This permanent bureaucracy is not composed solely of public employees; it is a triumverate of elected officials and administrators at the state capitol, bankers and other private financial executives, and local civil servants.

The state capitol, of course, grants a city its charter, its very existence as a legal entity. But governors and state legislators usually conveniently wash their hands of responsibility for their urban creations. They mandate functions that a city must carry out, but fail to provide the funding to do the job. Legislation that supposedly will help city residents is passed but there are few effective efforts to monitor and apply state laws in areas such as civil rights, fair housing, and equal education. And most states stubbornly deny governments the authority to implement progressive taxes that would reflect ability to pay.

The bankers and financiers do their part in the permanent bureaucracy by limiting what neighborhoods will qualify for mortgages, home improvement loans, business loans and insurance policies. As they constrict the availability of money the cycle of disinvestment takes hold in a neighborhood. Housing abandonment spreads. Tax collections fall. The city finds itself in a weakening financial condition. When it turns to the banks to borrow money for capital improvements, they charge a higher rate of interest, adding to the burdens of city residents.

Civil servants are entrenched in the cities' permanent bureaucracy. They know that no new group of office-holders can fire them, that the quality of services which neighborhood residents receive has little to do with their own careers.

In the name of good government, we institutionalized this bureaucracy and left it accountable to virtually no one. Good government reformers campaigned "to get politics out of city hall," many removed party identification from ballots, hired professional managers, repeatedly expanded civil service, and switched to at-large elections. City after city is largely governed by white, middle class, professional bureaucrats sharing widespread assumptions of racism and classism and carrying out a new form of colonialism in the central cities. As political scientist Norton Long has observed: "These civil servants view the city as an institution, with the residents as inmates and themselves as the keepers of the keys." No wonder so many city residents have come to feel disenfranchised and powerless. They find themselves dealing with a multi-layered structure of government, seemingly bound in reams of red-tape and lacking clear-cut accountability, that acts more as an adversary than an ally.

The neighborhood movement represents a demand for self-government in the daily lives of people as well as in the dry abstractions of law. It represents a demand for returning to the residents of neighborhoods the capacity for effective influence and policy-making. It represents a demand for de-bureaucratizing America.

The Problem of Unintended Consequences

Though the solutions to problems often can be best shaped within the neighborhoods, the causes as often lie outside. It adds insult to injury to blame the people in the neighborhoods for the national policies and economic forces resulting in disinvestment and decline. While World War II brought millions from rural areas to urban neighborhoods to work in defense industries, those industries were monopolizing construction materials. This precluded new housing and limited repair of existing units. In the postwar period, massive numbers of new homes in the suburbs were financed by FHA mortgages. The incentives provided by FHA favored new construction over rehabilitation. Between 1970 and 1975, the number of new housing units was double the number of new households. The difference was made up by urban out-migration: between 1970 and 1975, almost six million Americans left central cities for suburbs.

In most cases, the Commission believes that the way to save neighborhoods is not to demolish them. In economic terms alone, the less costly policy is to make existing neighborhoods more liveable. Professor Stanley Hallet of Northwestern University has calculated: "The public costs to taxpayers of supporting a neighborhood while it goes through a process of disinvestment, decline, and demolition are approximately the same as the costs of putting a new community in place in the suburbs." What is the total? According to Hallet, "The public costs of demolishing a neighborhood in the city and building a new one in the suburbs is over $1 billion." This process, Hallet has reported, is precisely what is occurring in Chicago: "(T)here are 25,000 dwelling units a year demolished in the city, and 25,000 units a year being built in the suburbs. Other cities are experiencing comparable rates proportionate to their size."

In contrast, Hallet has estimated the cost of saving one typical urban neighborhood of 80,000 people, including rehabilitation of a fifth of the housing, and a new industrial area, and the addition of two new schools, and 200,000 square feet of retail space, at $120 million—only a fraction of the cost of decline demolition, and replacement. Ironically, according to Hallet, the residents of this same neighborhood had $120 million on deposit in local banks. The choice in this neighborhood was between spending one billion public dollars, financed by the taxpayers, or recycling only a little over a tenth as much in private money, with citizens financing the reconstruction of their own community. Even when a measure of public investment is necessary, as it usually will be, the most economically—and humanly—sensible response is to help the neighborhoods to help themselves.

An important barrier to such self-help is the anti-neighborhood bias of many lending institutions, even those that do business there. They prefer to take their neighbors' deposits, but not to reinvest in the neighborhood. A community may have the economic resources, but all too often they are cycled out, perhaps to finance elsewhere a luxury highrise, another suburban tract, or expensive vacation homes. The problem is not always a lack of money but, as it has been in other areas, a misallocation of resources already in hand.

The neighborhoods also possess considerable resources of will that another institution cannot so readily energize. Sociologist Andrew Greeley in his book *No Bigger Than Necessary* pointed to "primordial ties of family, friendship, and local community (that) should not and cannot be destroyed." Even in adverse circumstances, determined, well-organized neighborhoods have pulled themselves up by their own bootstraps. They have marshalled the efforts to counter the effects of poverty and apparent physical decay. A South Bronx tenant group, for example, became the first to enter into a direct sales agreement to purchase the apartment building in which they lived after the landlord abandoned it. The New York City Direct Sales Program now maintains over 60 active applications from non-profit tenant groups. In Boston, the Lower Roxbury Community Corporation was formed in 1966 to assist families displaced by the construction of a new high school. Since then, the organization has built 3 projects totalling 383 units with a value exceeding $12 million.

Many people stay in their neighborhoods. Commentators often have noted that a fifth of all Americans move each year. At this rate, a neighborhood should experience a turnover of 100 percent of its residents in 5 years. However, some people are movers; others are stayers. Data gathered in 1976 showed that 44 percent of Americans had lived in the same neighborhood for over 6 years, 30 percent of them for 12 years or more, and eight and a half percent for more than a quarter of a century. Those who stay tend to include the most important leaders in the community.

In the postwar rush into new subdivisions, it was assumed that those who stayed behind had to. In one sense, that was—and in some places, it still is—true. New housing on average is too expensive for one-third to one-half of families unless they receive public subsidies. There is, however, an increasing movement of higher income families both away from newer housing and back to central cities. In housing, older used to be regarded as bad, now it is coming to be valued as better. The rising costs of new construction and of the energy to commute to work have given urban neighborhoods an economic as well as an aesthetic advantage.

This development threatens to replicate the problem of unintended consequences that so damaged urban neighborhoods in the past. Neighborhood preservation surely has an important and proper role; but too much of it, too fast, without any protection for those who already reside in the central cities, initiates a process known as "gentrification" that displaces the elderly, blue collar workers, and the unemployed in favor of professionals and white collar workers. Renters are replaced by homeowners. Singles and couples without children migrate into rehabilitated neighborhoods in significant numbers.

A *Washington Post* report recently described the prospective incursion of a higher income "gentry" into a typical neighborhood slated for revitalization.

> For now, the view is anything but attractive. The backyard is a jumble, a nearby parking lot is strewn with rubble, other houses stand in various stages of deterioration. Soon, certainly within a

> decade, the neighborhood will be "revitalized"—its present residents scattered, few scars remaining from the conflagration that followed Martin Luther King's assassination. . . Is there no way to rebuild our cities without driving out those who have suffered through the decay? Why can't these residents benefit from the improvements that will accompany the affluent newcomers? Must we destroy these neighborhoods in order to save them?

Indeed, that is exactly what the Potomac Institute's James Gibson has predicted for the beginning of the 21st century: "The working class will be squeezed out of the center cities by the white collar professionals while the suburbs, in turn, will become more blue-collar."

Those who have stayed through the hard times now find themselves trapped in a new paradox. As long as the neighborhood remains undesireable, it is denied external resources and the resources it generates internally are invested outside. Yet, when institutions respond to demands from neighborhood activists the changes can work to the disadvantage of long-time residents. As City Hall makes overdue physical improvements, as banks free up mortgage money for a formerly redlined neighborhood, as insurance companies write homeowners' policies in that neighborhood, the prime beneficiaries are often real-estate developers who renovate deteriorated housing units for new middle and upper middle class residents. As the uncontrolled reinvestment process continues, and rents and property taxes increase, residents can no longer afford to remain in their own neighborhood. They are displaced, to another deteriorating section of the city. And they wonder when it, too, will become a fashionable place for other, more fortunate people to live. This Commission would consider neighborhood redevelopment worse than a failure if bricks and mortar were revitalized at the expense of the people in the neighborhoods.

Neighborhoods and Resources

For white, black, and brown, poor and middle income Americans in neighborhoods, the answer is not merely better intentions or benevolence from above. Decentralization has become a perennial political promise seemingly made to be broken. The ideal has been articulated by candidates across the spectrum. The Commission believes that practical steps, described at length in this report, should be taken now to transform the ideal into a neighborhood reality. We believe that people are capable of planning and acting for themselves at the local level. We do not mean by this a mechanical devolution of functions from federal or state to municipal governments. From the neighborhood, city hall may seem as distant as Capitol Hill. Americans are least satisfied with societal institutions and most satisfied with what is immediate—their families and friends, their parishes and community activities—in short, their neighborhoods. Returning power to people does not mean handing it over to mayors or city managers. Actual neighborhood structures that can influence and implement policy must be created.

We view such structures as ways of sharing power on an appropriate scale. Not all government programs and processes should be decentralized. There should be a balance, for example, between the regional management of functions such as transit planning and water and sewer policies and a neighborhood role in physical improvements or in the delivery of services. Peter Berger and Richard Newhaus have argued that "the neighborhood should be seen as a key mediating structure in the reordering of our national life." Indeed, it is nearly an ideal mediating structure: It is large enough to administer programs and represent citizens, but close enough to hear and to heed their wishes. "Strong neighborhoods can be a potent instrument in achieving greater justice for all Americans," Berger and Newhaus have concluded.

The Jeff-Vander-Lou neighborhood in St. Louis, Missouri, is a case in point. The JVL organization evolved from the 19th Ward Beautification Committee when the predominately black neighborhood was threatened with "urban renewal". The goals of the organization were to stop urban renewal—massive demolition, abandonment and in the meantime, the loss of municipal services—and to revitalize the neighborhood for the sake of the residents.

Macler Shepard has emerged as the natural leader of JVL. He was the organization's first president and today, 12 years later, still holds that position. Under his administration, Jeff-Vander-Lou, Inc. has attracted the Brown Shoe Company with more than 300 jobs to the neighborhood. It has carried out capital development of both new and rehabilitated housing with a total worth of $15,000,000. JVL, Inc. manages rental property with a cash flow over $1,000,000 annually; it has paid $25,000 in property taxes. In addition, two child centers, a senior citizens' center, and a communications and learning center have been established.

What is more impressive is that all this started without government support or money; in fact, all of Jeff-Vander-Lou's early proposals to federal agencies were rejected. Financial assistance did come from the Mennonite church and a local business association, along with small amounts from community residents. More important than any funds or any other factor—and this continues to be true—has been the ingenuity and dedication of the neighborhood residents who volunteered their time and energy.

Such success in overcoming destructive government programs and in making progress despite government indifference, the failure of private investment and racial bias, has been repeated many times in many neighborhoods. How much more sensible it is to make a neighborhood productive than to spend, according to the estimate cited before, a billion dollars to destroy and then replace it.

Neighborhoods can achieve much on their own; the least government can do is not to impede them. Growth must continue, but government should end subsidies for growth patterns that develop new areas at the expense of existing neighborhoods and the waste of billions of dollars. Nor should government encourage a game of musical chairs with industrial plants or engage in one with public facilities. And government has more than a negative duty to cease hurting neighborhoods; it also has a positive obligation to help them. What is needed is not only to empower neighborhood structures, but to structure national policies, particularly those related to economic development, so that they work for rather than against neighborhoods. Without such policies, even the best efforts inside individual neighborhoods will shift problems to other places instead of solving them.

First, federal policies should take explicit account of neighborhood impact. We compile volumes of statistics about the national economy, but collect virtually no data about neighborhood economies. The state of those economies is as much a matter of guess work in 1979 as the rate of national unemployment was until the New Deal established accurate methods of measuring it. Community Full Employment, a central recommendation of the Commission, would target a variety of job-creating expenditures into specific neighborhoods. We believe that such targeting is vital because it can provide the most progress and the least inflationary effect for each dollar of spending. A report prepared for the Commission by the National Center for Economic Alternatives explains this point in relation to

Community Full Employment:

> Given the present uneven nature of the economy, the targeted Community Full Employment approach may be the only way to invest the amount of money that is going to have to be invested without distorting the overall economy and contributing to inflationary trends. The more this investment goes into areas of surplus capacity and surplus labor, the less inflationary impact the spending will have.

Community Full Employment could be a sensible, practical program to fulfill the promise of the Humphrey-Hawkins Full Employment Act. Yet in this first year following the passage of the act, we face the prospect of cutbacks not only in efforts to achieve full employment, but in a number of federal programs that are and could be vital to neighborhoods. Even where there are no cutbacks in the absolute total of dollars, programs receiving no budget increase in effect will be cut by the rate of inflation. And a program budget increased by less than that rate is also being reduced. Proposals to eliminate or slash comprehensive health grants, housing and rent subsidy programs, home improvement loans, and air and water quality assistance threaten to slow progress in some neighborhoods and to speed the decline of others.

The Commission agrees that controlling inflation is a priority; but we insist that the neighborhoods, the cities, and the social needs which have been potentially short-changed should not once again bear the heaviest burden of past federal mismanagement of the economy. The Catholic Bishops of the United States recently resolved: "The burden of these difficult times must not fall most heavily on the most vulnerable: the poor, the elderly, the unemployed, young people and workers of modest income... Renewed efforts are required to reform our economic life. The Commission asks the private and public sectors to join together to plan and provide better for our future, to promote fairness in taxation, to halt the destructive impact of inflation and to distribute more evenly the burdens and opportunities of our society." It is especially hard to accept a trade-off between unemployment and inflation when alternatives such as Community Full Employment could add jobs without putting additional pressure on prices.

The Commission also recognizes the new realism of fiscal restraint. Throwing money at problems does not solve them. But the Commission does assert that carefully applying money to problems can lessen and even solve problems. How painful it would be if the reign of error of federal highway, mortgage, insurance, and tax policies was now to become an easy excuse for neglecting the victims of these policies. The error was not the money that was spent, but what it was spent on. Public housing, for example, fell so short of announced goals that by 1970, only 2 percent of the urban population lived in such housing. Yet in one sense, the shortfall was fortunate. The design of most public housing was positively anti-neighborhood. Rudolph Moos has described the central deficiency of the infamous Pruitt-Igoe project in St. Louis, which ultimately had to be leveled, as a highrise design that "made it difficult for people to continue neighborhood visiting patterns of the type they had practiced."

Between 1970 and 1976, the costs of public policy in the United States increased by 25 percent. This is only half the rate of increase in western European countries as diverse as Sweden and Italy. Yet it is clear that further expansion of the public sector in this nation will be limited, even if present cuts are restored and even if new monies were used to finance the most effective programs. A realistic neighborhood policy must seek the maximum results from available resources. One critical requirement of a neighborhood policy is a new coalition involving neighborhood groups, public institutions, and private enterprise. Across a broad range of issues related to the neighborhood economy, government can provide not just tax dollars, but incentives for private investors. This policy has been tried on a limited basis for neighborhood development; incentives have been offered generally for economic expansion. More incentives should be targeted more precisely on neighborhood problems.

An example of a tax provision that damages neighborhoods is DISC, which accords favorable tax treatment to U.S. corporate investment abroad. The federal tax system thereby encourages the export of jobs from the neighborhoods, not just to relatively distant industrial parks, but to foreign economies an ocean away. The Commission recommends that the tax subsidy provided by DISC be redirected to reward investments that create jobs in depressed neighborhoods. This could become an important incentive to achieving community full employment substantially within the private sector. Federal employment programs such as CETA should be targeted in accordance with that goal. Today the CETA program is funding too many dead-end, make-work jobs in municipal administrations, instead of utilizing the private sector as part of a comprehensive plan to create permanent jobs in commerce and industry within neighborhoods, and to prepare people for those jobs.

Tax incentives could assist neighborhoods in areas other than direct economic development. Federal, state, and local tax advantages could bring new health care facilities into urban neighborhoods. Moreover, already existing tax advantages, such as property tax exemptions, could be related to the effort of institutions such as universities and hospitals to help their own neighborhoods.

Education, like health care, is a basic right; neither should become a special privilege. Yet America is now close to having a caste system of education, with the best opportunities reserved for the affluent, and inner city schools in a state of continuing decline. As long as urban neighborhoods have inferior education, families with children in school will be forced to leave as soon as they can afford to. One response beyond the conventional answers that should be considered would have universities reserving a certain number of seats for students from nearby urban neighborhoods. Students in educationally depressed Boston neighborhoods, for example, would compete for such seats at Harvard, Boston College, and other tax-exempt universities in the city. The possibility of being admitted to these institutions would be a powerful incentive for students to learn. Tax exempt hospitals could be required to provide a similar degree of neighborhood medical service.

Government assistance and tax incentives for neighborhood development can be misused so that private interests profit while neighborhoods achieve minimal benefits at best. There were, for example, several ancillary purposes to the 1937 Housing Act. The construction of public housing would put people to work; it would stimulate commerce and finance, thus assisting developers, manufacturers, and bankers. The last and least reason public housing was built was for the tenants. For decades, they had little or no influence on its design; it should not have been surprising that while the program fulfilled the ancillary objectives very well, it often housed people badly and degraded rather than improved neighborhoods. In a subsequent program in the late 1960s and the early 1970s, the Department of Housing and Urban Development assisted private developers to sell urban homes with major structural defects to lower income families. The developers profited; the families were exploited; and HUD became the single largest slumlord in the country. We have created a system that frequently cites the needs of people as a rationale for policy, but in fact meets the needs of various industries, institutions, and professionals.

The Commission believes that not only the mounting costs of government but the apparent futility of programs has stirred popular frustration. To state simply that the neighborhoods, the victims of bad government policy, are anti-government misses the essential point. Americans want public services, but not government inefficiencies and the excessive intrusions of insensitive bureaucracies.

If there is one central lesson of the neighborhood movement, it is the need for appropriate scale. Large is not necessarily effective, but small is not always better. Many activities should be carried out on a broader basis because they fit conventional notions of economies of scale. For many others, however, small-scale administration can achieve superior or comparable results at the same or lower cost. Economy of scale can mean small scale as well as large scale.

Beyond this, the neighborhood movement is an assertion that the values involved in public policy cannot be weighed solely on the scale of economics. We must not only foster investor confidence, but do so in a way that yields investments which create jobs rather than those which do not, or which even destroy jobs. We must look beyond the gross national product to individual and neighborhood improvement or impoverishment.

Neighborhoods empowered by government and in partnership with it and private institutions can do many things that government alone cannot do at all or as well. In the words of Richard Goodwin, "A single community cannot, of course, regulate institutions and forces whose functions are national in scope. . . However, the bonds of community are the nucleus from which larger shared social purpose can be formed. The weakening of social bonds at the level of community destroys the possibility of a more general social purpose." A society that cannot deal with problems at the neighborhood level cannot find solutions at the national level.

Nor can such a society be fully free. James Madison, the father of the Constitution, wrote two centuries ago that citizens must hold power and have the power to exercise it: "A popular government without popular information or the means of acquiring it is but a prologue to a farce or a tragedy or perhaps both," he argued. "Knowledge will forever govern ignorance and a people who mean to be their own governors must arm themselves with the power which knowledge gives."

Chapter Summaries and Recommendations

This Commission at least hopes to convey some basic, indispensable knowledge about the problems of urban neighborhoods. The Commission believes it is critical to destroy the myths about our urban neighborhoods and the people who live in them, myths which have blamed the victims for being victimized. The American people must understand that the deterioration of our cities did not just happen, that the concentration of poor minorities and white ethnics in cities does not occur because poor people prefer to live crowded together in substandard housing. Big business, big government, and big financial institutions made decisions that had a devastating effect on cities and urban neighborhoods.

The Episcopal Bishops have asked: "Are the children of the cities' ghettos responsible for the substandard housing in which they live? Are the infants born to the poor and to the disadvantaged of the cities in fact responsible for the disproportionately high infant mortality rate amongst the poor? Does the responsibility lie with them or is it to be found in a virtual conspiracy in which the major economic, political and social institutions are co-conspirators?"

Yet welfare is widely seen as wasteful spending, inflated by "frauds, cheats, and lazy bums who don't want to work." Abandoned housing units are too often pointed out as evidence that "you can't give them a decent place to live— they'll only ruin it." Some neighborhood residents have been told so often that they are at fault that they have begun to believe the myths, resigning themselves to a permanent status as second-class citizens.

Yet other neighborhood residents and organizers have been motivated to empower themselves precisely because they know that they have been victimized by financial, social, economic, and political systems, and by racism and classism. With a renewed sense of self-worth and self-confidence, they are challenging the falsehoods that blame them for the deterioration of their cities and their blocks. They have joined together, in community-based groups, to demand economic and social justice, and to rebuild sound and decent neighborhoods.

It is that kind of effort that the National Commission on Neighborhoods supports and that the nation ought to nurture in every urban neighborhood. The recommendations that follow in this report are not all-inclusive. But they represent a major new direction for America's neighborhoods. We hope that those who read this report in government, among the public, and in private enterprise, will join the residents of urban neighborhoods in a united effort to reorganize our society—away from the stranglehold of a relative few with a near monopoly of power and money in political, social, and economic institutions to a new democratic system of grassroots involvement that allows individuals to have control over their own lives.

To give meaning to these ideals through concrete recommendations based on rigorous analysis the National Commission on Neighborhoods drew from many sources. A series of public hearings—in Baltimore, Cleveland, Chicago, St. Louis, Los Angeles and Seattle—provided the base of awareness and emotional understanding. Nine issue conferences brought professionals, intellectuals, and neighborhood representatives together in broad discussions probing problems that have eluded solution for years. The hearings and conferences were meshed with work of more than 70 consultants and innumerable advisors to produce the material which the Commission considered to produce this report.

Very early in the life of the National Commission on Neighborhoods, under the leadership of Chairman Joseph F. Timilty, commissioner task forces were established. The six task forces were: Neighborhood Reinvestment, chaired by Commissioner Gale Cincotta; Economic Development, chaired by Commissioner David Lizarraga; Commissioner Robert O'Brien chaired Legal, Fiscal, and Administrative Obstacles to Neighborhood Self Reliance task force; Human Services was chaired by Commissioner Ethel Allen; the task force on Governance, Citizen Involvement and Neighborhood Empowerment was chaired by Commissioner Peter S. Ujvagi; to coordinate the activities of these groups the Policy and Drafting Committee, co-chaired by Commissioners Arthur Naparstek and Nicholas Carbone, was established. Using these task forces and numerous full commission meetings the following chapters and recommendations were given form.

For the convenience of the reader the six chapters are summarized and highlighted recommendations are provided. A full set of recommendations concludes this section. Together these cut a path that guides the way into the final report. In its entirety this report is intended to give direction to achieve citizen involvement, governmental responsiveness, private profit, maximum use of resources, and above all, a way of forming mutually successful partnerships that implement American ideals.

Chapter 1: Neighborhood Reinvestment

Our economy is controlled by access to various forms of monetary flow, basically capital and investment credit. Neighborhoods that are denied financing cannot survive. That is the essence of the neighborhood reinvestment issue. The dramatic increase in the number of neighborhoods affected by this disinvestment process is evidenced by the variety of people represented in the neighborhood movement, including virtually every racial and ethnic group.

During the past year, the Commission has examined reasons why neighborhoods are redlined or refused conventional credit. We have found that perhaps the most important factor over a long period has been a set of myths that have virtually dictated the investment decisions of banks, savings institutions, insurance companies, pension funds, government agencies such as HUD, and secondary mortgage market agencies such as FNMA and GNMA.

The importance of neighborhood economic structure has too often been ignored when government has offered solutions. The private sector continues to resist making sound loans or investments in neighborhoods that other investors have already mislabeled as poor risks. The lack of insurance availability has frustrated programs that otherwise would succeed. No single approach to neighborhood reinvestment can be effective in isolation. A pattern of disinvestment policies permeates every institution, from the real estate broker to the secondary mortgage market.

The Commission has developed a series of recommendations as essential first steps toward fair access for all communities to the institutions upon which our economy and our nation's future depend.

The major recommendations of this chapter include:

First, Anti-Discrimination Legislation:
Congress should outlaw geographic discrimination against neighborhoods.

Second, Home Mortgage Discrimination:
Congress should enact legislation prohibiting financial institutions from denying a loan or discriminating in setting the terms of conditions of a loan on the basis of the age or location of the property. Loans covered by this legislation should include multi-family apartment building loans, small business and other commercial development loans, as well as home mortgage and home improvement loans. The law should stipulate the underwriting and appraisal standards, affirmative lending policies, regulatory analysis of the Home Mortgage Disclosure Act data, strong sanctions and penalties, and regular charter review.

Third, Home Mortgage Disclosure:
The Home Mortgage Disclosure Act should be made permanent and should be expanded to include data on loans other than home mortgage and home improvement loans. It is the view of the Commission that the Home Mortgage Disclosure Act is the sole reinvestment monitoring tool available to neighborhood people as well as to regulators.

Fourth, Community Reinvestment Act:
The Commission recommends that the Community Reinvestment Act be strengthened and closely monitored. Changes in CRA regulations must be adopted to insure its impact. Lenders must not only be encouraged to increase lending levels in low and moderate income neighborhoods but must be guided by the regulatory authorities where necessary to assist them in devising policies and programs that will carry out the intent of CRA.

Fifth, Neighborhood Rehabilitation:
The Commission recommends that the Administration foster a national neighborhood rehabilitation industry that would include, but not be limited to: (a) increased funding and better targeted use of Section 312, 8, and 235 program funds: (b) an incentive increase in Community Development Block Grant funds to cities which use a major portion of their funds for rehabilitation; and (c) the enactment of Emergency Home Purchase-type legislation targeted to low and moderate income housing in disinvested neighborhoods characterized by gentrification.

Sixth, the Department of Housing and Urban Development:
HUD has been dealing with the interests of Mortgage bankers, developers, homebuilders and lenders, and therefore the interests of HUD's clients—low and moderate income people—have been lost. The Commission believes that the primary responsibility of HUD is to serve the housing and development needs of low and moderate income people and their neighborhoods. In particular, the Commission recommends:

1. FHA should be available throughout a metropolitan area, thereby eliminating its use as a tool of the dual housing market; FHA should include mandatory pre-purchase and default counseling; repair and sell programs for all acquired properties should be established; all FHA mortgages should be tracked on a census tract basis; delinquency notice procedures should be restructured; FHA should provide home inspection and certification; and HUD should develop a targeting strategy of assignment, counseling, and rehabilitation.

2. Legislation should be enacted to assure that Community Development Block Grants are appropriated on a 75 percent to 25 percent ratio, i.e., that 75 percent of all funds must benefit low and moderate income residents of disinvested communities; HUD regulations, application forms, and performance reports should be revised to clarify the needs of low and moderate income neighborhoods; HUD should revise its monitoring handbook to increase the effectiveness of HUD oversight of program performance; HUD should develop measures of success that can be more readily recorded and monitored; HUD should revise its Grantee Performance Report; HUD should consider unspent CDBG monies as a measure of non-success; and HUD should require cities to inventory abandonments on the basis of a standardized definition.

Seventh, Insurance Coverage:
The Commission finds that the availability of insurance coverage is a major problem in low and moderate income neighborhoods. Discriminatory practices among conventional insurers must be stopped and the administration of FAIR Plan coverage improved. The Commission recommends that the Fair Housing Act be amended to specifically state that insurance falls under the purview of the legislation. The McCarran-Ferguson Act should be amended to allow federal agencies to investigate and prosecute in the case of anti-trust violations; and legislation should be enacted that would require any state that wishes to participate in the FAIR plan meet specific equity standards.

Chapter 2: Neighborhood Economic Development

Trends in the organization of the national economy have compounded the racial and demographic transformations of cities by favoring new regions and the suburban expanses surrounding central cities. Industry has left; equity and venture capital has been withdrawn; and entire neighborhoods have been disinvested. Until the productive capacity of distressed neighborhoods is restored revitalization will be impossible.

Jobs that provide a living wage are essential to viable neighborhoods. Families without adequate income can hardly invest in their homes and neighborhoods. The Commission has identified a number of economic development strategies that can successfully forge partnerships among public programs, private industry and community based organizations.

Too generally, economic policies in the United States ignore the needs of people in declining communities. For instance, policies of the Federal Housing Administration have compounded the problems of cities by attempting to relieve overcrowding by emphasizing new construction. This has encouraged suburban sprawl and given new housing precedence over the rehabilitation of existing structures.

The Commission recommends a federal economic planning strategy which would concentrate on creating jobs in and restoring economic vitality to distressed urban neighborhoods. This can be achieved by implementing a Community Full Employment policy and supporting alternative economic structures which can redirect resources into low and moderate income neighborhoods.

Community Full Employment calls for targeting federal procurement and spending to areas with the highest levels of unemployment. In this manner, the resources available to alleviate unemployment can be concentrated where the need is and thus impact will be greatest. This approach can avoid inflation that might be due to government spending. It can be an effective means to implement the Humphrey-Hawkins Full Employment Act. In some areas it will be necessary to build alternative economic structures to repair the damage of public and private disinvestment.

The Commission identified five major approaches to economic development which people in poor and declining neighborhoods have relied on to respond to poverty, unemployment, and physical and social decay. The Commission has reviewed successful development and job creation efforts in all five categories and believes that these efforts deserve substantial and sustained support.

The major recommendations of this chapter include:

First, Community Full Employment:
This strategy should be implemented by all levels of government, but it depends especially on the federal government.

Second, Targeting Public Resources:
States and localities should target resources explicitly to urban areas for the purpose of upgrading the income levels of current residents. Neighborhood based economic development programs should be an explicit part of this approach.

Third, Public-Private Partnerships:
The Commission recommends public-private partnerships to finance potential business ventures within poor or declining neighborhoods and to create jobs principally for the unemployed or underemployed in such neighborhoods.

Fourth, Urban Industrial Location Policies:
The Commission condemns the relocation of industries out of urban areas. Government policies should be designed to discourage industrial flight.

Chapter 3: Legal and Fiscal Obstacles to Neighborhood Self-Reliance

The Commission identified thousands of neighborhood organizations throughout the nation which are working hard to improve the quality of life for their members. Although many are primarily concerned with social and economic development, nearly all are committed to the physical improvement of their neighborhoods. An especially important element of these neighborhood development programs is the preservation, construction, and rehabilitation of decent, affordable housing. Increasingly, neighborhood organizations themselves are taking the lead in developing housing in the cities. This is a trend which the Commission believes should be supported as strongly as possible.

In their attempts to establish local housing conservation programs, neighborhood organizations invariably discover that their efforts are constrained by a frustrating, often incomprehensible framework of laws, ordinances, codes, regulations, and bureaucratic practices.

The property tax is particularly discouraging to lower income groups seeking home ownership or reasonable rents. By its nature, this tax is a regressive one with a disproportionate negative impact on low and moderate income families, impeding home ownership by them and encouraging abandonment. There are many options available to cities seeking more equitable methods to finance services and capital improvements and to stimulate neighborhood revitalization. The Commission's survey revealed clearly that the traditional property tax system achieves neither of these goals.

The Commission identified key problems which regulation of the housing market poses for low and moderate income people and their community based organizations. Specific changes are suggested: they provide a framework for efforts to reduce obstacles to self-improvement by low and moderate income families as well as minority citizens.

The major recommendations of this chapter include:

First, Federal Income Tax Reform:
The federal income tax system should be amended to provide incentives for neighborhood revitalization.

Second, Property Tax Reform:
Property taxes should be based on ability to pay. Unfair exemptions should be eliminated and the burden on residents of urban neighborhoods should be reduced substantially. When reassessment or equalization takes place cities must be reimbursed for lost revenue or given expanded taxing authority in order to avoid unfair reduction in community services.

Third, Neighborhood Integration:
The Commission firmly believes that racially diverse neighborhoods are viable neighborhoods. Government should apply the full force of law against exclusionary zoning, blockbusting, racial steering, and other discriminatory practices. Government at all levels should support the efforts of individuals and community based organizations to enforce such laws and regulations and to achieve integration.

Fourth, Recycling Property:
Abandonment of housing and commercial buildings is among the most serious problems of urban areas. Legislation should be enacted facilitating efforts of local government to recycle abandoned property.

Fifth, Building Code Reform:
Local and state governments should adapt building codes and procedures to facilitate production of low cost housing and the rehabilitation of existing structures.

Chapter 4: Delivery of Human Services

Social services provide individuals and families with help in coping with the stresses and crises of everyday life. In an earlier era, these services were informal and unstructured. People in need turned to their families, their communities, and their churches for aid and support. As society became increasingly complex, secular institutions were established to perform these functions.

At the turn of the century, social services in the United States were provided by such neighborhood based organizations as the settlement house and the political ward club. Since then, traditional ties of neighborhood have been frayed, then broken as vast, impersonal bureaucratic institutions have come increasingly to dominate human services.

The Commission examined means of restoring a neighborhood focus to these services. We found a wide variance in the level of services in urban neighborhoods across the country. In some communities, an extensive network of public and private organizations provide a full range of health, nutrition and counselling and information services available to children, families, and the elderly. In other neighborhoods, particularly those slated for redevelopment, services are inadequate or virtually nonexistent. Access to services is generally a function of age, race, and income. Low income in particular appears to be a common denominator of those most in need of improved services. Low income neighborhoods often have large black and Hispanic populations; minorities suffer disproportionately from inadequate and inaccessible services.

Not only should services be allocated more equitably among neighborhoods, but they should also focus more clearly on the total needs of the individual. A holistic approach in a neighborhood context should bring human service programs into an integrated system and link this system to grassroots helping networks that are already integral parts of local communities.

Neighborhood residents and organizations should be active participants with real influence in the system; this can shape services tailored and targeted to locally identified needs. Finally, services should be organized and delivered to enhance the neighborhood's capacity to revitalize itself.

The major recommendations of this chapter include:

First, Neighborhood Human Service Systems:
The Commission recommends that HEW provide direct funding on a demonstration basis to neighborhood organizations for the purpose of developing neighborhood human service systems. These neighborhood systems, modeled after the Neighborhood Housing Services projects, would serve to integrate human services activities on a local level through improved partnerships between local residents, neighborhood organizations, private service providers, and federal, state, and local governments. Following completion of this demonstration program, legislation should be adopted to provide a 2 percent set-aside of Title XX funds for use in developing neighborhood human service systems.

Second, Neighborhood Advocates in HEW:
The Commission recommends that HEW establish neighborhood advocate posts in its regional offices. The advocates would be responsible for assisting neighborhood organizations in drawing on the full range of HEW programs than can contribute to the development of neighborhood service systems.

Third, Training and Technical Assistance:
The Commission recommends that training and technical assistance funds provided under the authority of such legislation as Title XX, the Crime

Control and Safe Streets Act, and the Community Mental Health Amendments should be redirected to promote improved linkages between professional service providers and neighborhood helping networks.

Fourth, Title XX Funding Ceiling:
The Commission recommends that legislation be enacted to raise the current $2.9 billion Title XX ceiling to $3.15 billion in fiscal 1980 and to $3.45 billion in fiscal 1981.

Chapter 5: Compounded Problems Confronting Racial Minorities in Urban Neighborhoods

Families of all races pay a penalty for living in our central cities. However, of all the residents of distressed urban neighborhoods, blacks, Hispanics and other racial minorities are the worst victims. One hundred and fifteen years after the signing of the Emancipation Proclamation, racism still oppresses the lives of Afro-Americans wherever they live. In the nearly 40 years of black migration from their rural impoverished southern roots, Afro-American have become the urban poor.

Hispanics in metropolitan areas experience many of the problems of discrimination and exclusion encountered by previous generations of European immigrants: they are the newest arrivals; they were poor when they arrived; they speak another language and enjoy a different culture; and they are unwanted by the majority culture. Beyond these barriers to equality, Hispanics share with blacks the attribute of color, at least in the eyes of the dominant society.

Failure to fully implement the 1964 Civil Rights Act and the 1965 Voting Rights Act is of particular concern to the Commission. Government has committed itself, by words and legislation, but not by sufficient deeds, to a major responsibility for eliminating racism in America. Inadequate funding and support for the agencies and individuals charged with this responsibility is a continuing disappointment and a national disgrace.

The Commission is also concerned that an accurate 1980 census be conducted. In 1970 blacks were undercounted by almost 8 percent and other racial minorities, including Hispanics, were not differentiated at all. The Commission shares the concern, based upon mounting evidence, of many groups and individuals that this pattern will be repeated. We urge that remedial action be taken quickly and that reasonable and accurate methods be established to assure that minorities and their neighborhoods not be penalized for another ten years.

As a public body with a mandate to address urban policy as it affects low and moderate income neighborhoods in metropolitan areas, the Commission shares the strongest expressions of concern for the plight of blacks, Hispanics, and other racial minorities. The Commission endorses the five principles which the Congressional Black Caucus regards as essential to an urban policy for the United States. These principles are:

1. The Federal budget must be reordered so as to provide adequate resources for urban revitalization.
2. Physical development of housing, public facilities, and transportation must be focused on people living in areas of concentrated poverty, must provide job opportunities to those persons, and must not displace them from their neighborhoods.
3. Tax policy and other federal expenditures must support the revitalization of cities rather than continue to undercut central cities while building up suburban areas. This includes federal procurement and contracting as well as direct federal financial assistance.
4. Transportation policy must be reoriented to bring lower income persons

to jobs which have moved out of the central city rather than just moving wealthier suburbanites to their inner city jobs. There must be at the same time movement of jobs back to the inner city.

5. Consolidation of human services for more effective delivery at the state and local level must be done in a manner which promotes jobs for residents of areas of concentrated poverty.

The Commission, in its deliberations, has also developed its own agenda of recommendations. The following recommendations, from an issue conference held by the Commission, could have been taken in the past, should have been enacted, and must now be achieved.

1. Assistance to minority neighborhoods through housing, economic aid or other programs should be increased.

2. Community and economic development programs should mandate provisions for increased participation by minority and low income community based organizations.

3. The federal government should provide incentives and training programs for neighborhood groups in program planning and evaluation so they can effectively collaborate with elected officials and administrators.

4. Funding priorities for neighborhood development should be adequate to minimize competition among minorities and to insure that minority and low income communities receive a share which is proportionate to their needs.

5. Program guidelines for citizen and neighborhood participation should be clear and precise and specifically include minority and low income neighborhoods. Guidelines should mandate representation from neighborhood organizations on all city policy boards which administer federal funds.

6. Neighborhood lobbyists are needed at every level of government to advocate and to evaluate legislative proposals and regulations. A more activist stance is necessary and it should include minority involvement and perspectives from the outset.

7. The government's capacity building for financial management and the leveraging of funds and programs should be expanded to train minority and low income neighborhood residents. Minority neighborhood groups need training in federal grant procedures and in the legislative process. This training and technical assistance should be provided by federal funds.

8. Increased neighborhood funding is required if there are to be measurable program outcomes and if intergroup competition is to be minimized.

9. All levels of the public and private sector should hire minority neighborhood development experts who have a commitment to and an understanding of the needs of their constituents.

10. There should be extensive minority staff participation in commissions and other government-sponsored organizations which deal with neighborhood development.

11. Federal procedures, including strengthened mandated participation

and A-95 procedures should be established for ongoing consultation with minority leaders and groups in order to review and monitor policies which affect urban and minority communities.

12. All national programs and policies that impact on minority communities should be coordinated to prevent duplication and promote maximum community growth and development.

13. Educational programs and planning procedures should be instituted to bring neighborhood groups and the private sector together to assess community needs and resources. Agreement should be sought on the following: indicators of economic distress, evaluation of resources, a range of alternative strategies, and the roles to be played in economic development and reinvestment programs by various public and private agencies and individuals.

14. The private sector should be urged to study and implement economic strategies which have been successful in a number of neighborhoods throughout the country. The economic empowerment and involvement of minority businesses should be an essential part of this effort.

15. The federal government should design program regulations and guidelines which will facilitate neighborhood leveraging of funds and programs. Complicated applications, unrealistic deadlines, frequent revisions of programs, and excessive matching fund requirements should be eliminated.

Chapter 6: Governance, Citizen Participation and Neighborhood Empowerment

Governance is most often considered in terms of political parties, elections, and civil service bureaucracies. However, it has taken other forms, especially in recent decades. For example, the federal government has mandated a multitude of advisory boards, task forces, and public hearings. Unfortunately, these mandated participation mechanisms are often unrepresentative and powerless because they lack both independence and capacity. Similar problems have been encountered by neighborhood sub-units of government, such as systems for decentralization of city bureaucracies, neighborhood councils, and local planning units. Some city governments have provided these sub-units with technical assistance, money, and independence. In these cases, neighborhood people and city halls have come closer to developing constructive partnerships.

The most independent forms of participation in governance have been neighborhood controlled development corporations, historic preservation organizations, social service delivery organizations, and issue-oriented advocacy groups. When these neighborhood-based organizations have capacity, in the form of skills and financial resources, they can tap and channel the energy, leadership, and natural networks that exist in every neighborhood, no matter how devastated.

City, state, and federal governments, and the private sector each have a role in the development of neighborhood capacity. A neighborhood competent city government must be free of constricting state laws which prevent it, for example, from enacting residency requirements for municipal employees. City governments should consolidate related agencies into single coordinated units, yet also delegate power and functions to field offices and neighborhood groups. This can provide flexibility and sensitivity in dealing with diverse areas and unique needs.

A few state governments, notably Massachusetts and Pennsylvania, have neighborhood policies. Other states should follow their example. One constructive beginning would be to form state neighborhood and urban commissions.

The federal government has provided capacity building resources to neighborhoods through ACTION, the Economic Development Administration, the Department of Housing and Urban Development, the Intergovernmental Personnel Act, the Law Enforcement Assistance Agency, the Urban Reinvestment Task Force, and others. In general, federal funding, training, and technical assistance for community organizations has been effective when it has been relatively direct so that local officials unsympathetic to neighborhood organizations cannot refuse the assistance.

Churches have consistently provided private sector resources for neighborhoods. Churches more than any other institutions have been especially valuable in insuring the independence of neighborhood organizations. Corporations, foundations, and the United Way have also provided resources. although access to United Way funds has been difficult for grassroots organizations. Many feel that alternative funding sources are needed. In several cities, workplace solicitation has been opened to organizations other than the United Way.

It is impossible to separate problems of neighborhoods and cities from those of race. Racism sped white flight to the suburbs and restricted blacks to ghetto neighborhoods which lacked economic and political strength. Racial and ethnic groups who lack equity have a special need for the skills and financial resources that provide internal strength and independence.

In many cases, achieving equity requires struggle and confrontation through advocacy organizations which develop leadership, power and accountability. When neighborhoods, governments, and private institutions all have power and relative independence, they maximize each other's capacity. Only then will they have the potential for building a fair and equitable system of governance, which can make a new urban partnership an effective reality.

The major recommendations of this chapter include:

First, Citizen Participation:
In order to insure the efficacy of federally funded citizen participation, written plans for citizen participation should be required of all agencies and programs affected by federal participation mandates; present requirements for participation should be subject to increased enforcement; the G.A.O. should audit all funds spent by federal agencies on citizen participation; and technical assistance should be provided to neighborhood groups so they can effectively participate in the planning and development of federal programs.

Second, Municipal Capacity and Limits:
City governments should build their capacity to work closely with neighborhood groups, and should increase the contractual delegation of responsibility for service delivery to advanced neighborhood organizations. Mayoral comments on federal funding proposals for the budgets of community organizations or for training and technical assistance should *not* necessarily constitute a veto.

Third, the Role of the States:
States should recognize the need for city and neighborhood revitalization by establishing state commissions on urban and neighborhood policy.

Fourth, Federal Urban Programs:
The Commission supports the expansion, and in some cases improvement, of federal programs which build neighborhood capacity, like the CETA program, EDA's Office of Special Projects, LEAA's Community

Anti-Crime program, ACTION's VISTA programs, and HUD's Office of Neighborhood Development.

Fifth, Private Support:
Those sources like churches and church-related foundations which fund organizing and neighborhood activities are to be commended. Other private sector sources of funds which have been exclusive or negligent in their support of neighborhood organizations, like the local United Ways, should be pressured by local groups to open up their memberships and boards to neighborhood interests.

Sixth, Tax Policy:
The Internal Revenue Code should be amended to allow taxpayers to take a tax credit for charitable contributions, regardless of whether they itemize deductions.

The Recommendations

Recommendations of the Task Force on Reinvestment

I.
The Federal Home Loan Bank Board, regulator of federally insured savings and loan associations, has adopted administrative regulations that prohibit redlining—or geographic discrimination in lending. This is a very significant step forward and the Commission strongly applauds the Bank Board's initiative. However, these regulations apply only to savings and loans. To provide a statutory base for these regulations and to expand their coverage to include other financial institutions, the National Commission on Neighborhoods recommends legislation be enacted with the following provisions:

A.
Financial institutions are to be prohibited from denying a loan or discriminating in setting the terms or conditions of a loan on the basis of the age or location of the property. Loans covered by this legislation should include—multi-family rental unit loans, small business loans, and other community development loans, as well as home loans and home improvement loans.

B.
Non-discriminatory underwriting and appraisal standards that would serve as a standard to lenders would be required by regulatory authorities.

C.
Lenders found to have a poor lending performance in low and moderate income and/or minority communities would be required to develop aggressive affirmative lending policies, with minimum standards set by law.

D.
Regulatory analysis of compliance would rest most heavily on the examination of a given institution's lending pattern and community complaints.

E.
Strong sanctions and penalties, including the use of fines, cease and desist

orders, and denial of regulatory privileges would be levied on non-complying institutions.

F.
The charters of financial institutions should be reviewed regularly and charter renewal should be based to some extent on compliance with this and other non-discriminatory laws and regulations.

II.
Legislation should be enacted that would make the Home Mortgage Disclosure Act permanent. Additional provisions for HMDA would be required, including:

A.
The HMDA regulations (Regulation C of the Federal Reserve Board) should be changed to require lenders to report data on a loan-by-loan basis.

B.
HMDA regulations should be changed to require all the loan data presently collected under the California state regulations, with the inclusion of default and disclosure data.

C.
The HMDA regulations should be changed to include data on deposits for institutions which are depository institutions.

D.
The HMDA regulations should be changed to provide for a form of portfolio disclosure.

E.
The HMDA should be amended to include mortgage bankers.

F.
The HMDA should be amended to include the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), all state, country, and municipally created secondary mortgage entities as well as life insurance companies and pension funds.

G.
The HMDA regulation should be changed to require central processing and tabulation of the HMDA data.

H.
The Federal Reserve Board, as the lead agency in implementing HMDA, should develop materials to assist lenders in collecting and producing HMDA data.

III.
The National Commission on Neighborhoods recommends that the Community Reinvestment Act be strengthened and closely monitored. Changes in the CRA Reinvestment Act be strengthened and closely monitored. Changes in the CRA regulations must be adopted to assure its impact. Lenders must not only be encouraged to increase lending levels in low and moderate income neighborhoods, but must also be directed by the regulatory authorities, where necessary, to devise policies and programs that will carry out the intent. Examiners must be trained to assess the impact of each institution's advertising and marketing strategy, their ability to counsel applicants, and other mechanisms for reinvestment as outlined in the reinvestment chapter.

IV.
Commercial banks should be required to invest a federally mandated percentage of their assets, on a non-discriminatory basis, in home mortgages, with emphasis on their role in mortgage lending for existing multi-family apartment buildings.

V.
The Commission recommends to the Federal Home Loan Bank Board and to Congress that any further regulatory or legislative privileges granted savings and loan associations should be disallowed if a potential negative impact on credit availability in neighborhoods and on lenders' responsiveness to local credit needs can be shown.

VI.
The secondary mortgage market is one of the most significant sources of mortgage money. Regulations are required to insure that the secondary market does not contribute to disinvestment or favor new construction over existing housing.

A.
Legislation should be enacted that is fashioned after the Emergency Home Purchase Act of 1974 (EMPA) to help counter disinvestment. Instead of, as in the original bill, $7.7 billion authorized by Congress for GNMA to purchase commitments for new construction, this legislation would authorize $7.7 billion for purchase commitments for GNMA's purchase of conventional mortgages in relined areas. Further, through GNMA subsidy authority, these mortgages would be subsidized down to at least 2% below market. Strict income restrictions should be imposed to assure that this reinvestment approach would benefit low and moderate income residents, and not fuel displacement. In addition, protections should be included to insure that the property continues to assist low and moderate income residents and not fuel displacement upon subsequent resale.

B.
FNMA should monitor the neighborhood performance of mortgage bankers. (A mortgage banker may have an overall low default/foreclosure rate, but an exorbitant default/foreclosure rate for a given neighborhood or community.) Poor performance at a neighborhood level should result in FNMA cutting off further purchases from the mortgage banker.

C.
FNMA, GNMA, and FHLMC should be required to affirmatively market their interest in buying mortgages in redlined areas.

D.
FNMA should disclose publicly, by census tract, its mortgage portfolio.

VII.
The availability of insurance coverage is a major problem in low and moderate income neighborhoods. Discriminatory practices must be stopped and the administration of FAIR Plan coverage must be improved considerably.

A.
The Fair Housing Act must be amended to specifically state that insurance falls under the purview of the legislation, thereby providing the Justice Department clear authority to investigate and impose sanctions on the discriminatory practices of insurance companies.

B.
The McCarran-Ferguson Act should be amended to allow federal agencies

to investigate and prosecute in the case of anti-trust violations.

C.
Legislation should be enacted that would require any state that wishes to participate in the FAIR Plan to:

1. have passed state legislation prohibiting insurance redlining
2. develop procedures by January, 1980 by re-evaluating existing FAIR Plan policy holders within the state with the objective of returning to the private market those policy holders who have been unfairly and arbitrarily relegated to the FAIR plan.

D.
The recently passed Holtzman amendments to the FAIR Plan should be immediately implemented by the states and monitored by the Federal Insurance Administration (FIA) for enforcement and effectiveness. These amendments require that FAIR Plan rates equal conventional rates and that one-third of the FAIR Plan Boards be consumers.

E.
Legislation should be enacted requiring FIA to provide detailed public disclosure, by census tract, of FAIR Plan policies.

F.
Legislation should be enacted that would require full homeowners coverage availability under the FAIR Plan.

VIII.
Public employee pension funds ought to be used in a safe and prudent manner and ought to have a reasonable rate of return. Their responsibility to invest in community development and housing to help meet the local credit needs of disinvested neighborhoods should be expanded and clarified by law and regulation. As a first step, public pension funds should be required to develop a plan to invest a greater portion of their funds in investments designed to benefit low and moderate income disinvested communities.

A.
Government and public employee pensions should vote their shares and resolutions exercising corporate responsibility. Specifically, resolutions concerning South Africa, and other resolutions of moral and political importance should receive support of government controlled and public employee controlled pension funds.

B.
Insured pension fund investment should become a tool for capital formation which supports economic development. Pension funds should be a primary tool for the neighborhood movement to move beyond regulatory approaches to capital allocation, e.g. redlining. Pension funds, when exercised in a prudent and safe fashion, can provide the resources for public capital allocation.

IX.
The Commission recommends a major policy effort by the Administration to foster a rehabilitation industry nationally, designed to assist the existing low and moderate income residents of redlined neighborhoods. The following legislation is proposed as components of a rehabilitation package.

A.
Legislation should be enacted that would create a financial incentive for

cities to use at least 15% of their CDBG funds to rehabilitate housing to exclusively benefit the existing low and moderate income and minority residents of redlined communities. Cities would be reimbursed dollar-for-dollar up to an amount equal to 50% of their total CDBG allocation.

B.
Legislation should be enacted that would require that Section 312 low-interest rehabilitation loans be restricted in use to benefit solely low and moderate income and minority residents of existing redlined communities, and low and moderate income residents of neighborhoods experiencing gentrification; at least 30% of these funds should be used for multi-family rehabilitation (over 6 units) and Congress should appropriate additional funds to assure increased uses for multi-family rehab; strict income restrictions should be imposed and monitoring procedures established.

C.
Legislation should be enacted that would require that 75 percent of the HUD 235 program be used for rehabilitation of existing housing for the benefit of existing low and moderate income and minority residents of disinvested communities, and low and moderate income residents of neighborhoods experiencing gentrification.

X.

Multi-Family Rental Housing for Low and Moderate Income People

A.
Conventional lending for multi-family buildings must be increased through strong anti-redlining laws.

B.
In areas and neighborhoods most severely hit by long-term disinvestment, community-initiated self-help efforts such as tenant management and coops must be given the full support and assistance of existing federal, state, and local resources.

C.
Benefits tests should be developed for all existing HUD multi-family subsidy programs to assure that low and moderate income people are benefiting from the subsidy.

D.
Criteria for Section 8 must be revised to eliminate abuses of the program and to assure the benefits for low and moderate income people. Priority use of Section 8 should be for the rehabilitation of existing multi-family housing units. Because of the potential of Section 8 for addressing the problem of displacement, a revised and reformed Section 8 program should be given increased appropriations.

E.
The Neighborhood Reinvestment Corporation should be appropriated funds with which to expand its Apartment Improvement Program so that it can also reach lower income, more severely disinvested neighborhoods. The program should be directed to develop several alternative prototypes for the future ownership and management of apartment buildings which investor-owners and traditional management firms have written off. The prototypes should all heavily emphasize resident involvement and include a variety of forms of resident, community, cooperative, and public ownership. They should test various methods of facilitating a transition in ownership. They should involve residents, owners, local governments, and financial institutions, and include adequate financial and technical assistance and changes in foreclosure and receivership to ease the transition in ownership.

XI.
The Federal Housing Administration must redirect its priorities so that they support the housing needs of low and moderate income neighborhoods and don't contribute to the dual housing market.

A.
The Commission recommends that FHA's primary focus is to assist the home ownership of low and moderate income people. Therefore, FHA should be available throughout a given metropolitan area.

B.
Mandatory pre-purchase (including credit and expense counseling) and default counseling should be provided to aid FHA applicants and mortgagors.

C.
Repair and sell programs for all acquired HUD properties should be instituted.

D.
All FHA mortgages will be tracked on a census tract basis so that if a given community shows an extreme dependence upon FHA lending, HUD would call upon the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the Comptroller of the Currency to investigate the lack of conventional credit in a given community.

E.
The delinquency notice procedures should be restructured so that area offices and approved HUD counseling agencies can contact the delinquent mortgagor in the first or second month of default.

F.
FHA should provide a home inspection and certification prior to all closing and provide a one-year home warranty program for all FHA insured loans.

G.
HUD should develop a targeting strategy of assignment, counseling, and rehabilitation for neighborhoods experiencing the greatest concentration of defaults, foreclosures, and abandonments.

XII.
The Community Development Block Grant program must be more clearly targeted to the needs of low and moderate income neighborhoods.

A.
Legislation should be enacted that would assure that all Community Development Block Grant expenditures are appropriated at a 75/25 percent ratio—that is, that 75 percent of all program funds and other CDBG expenditures benefit the existing low and moderate income and minority residents of disinvested communities.

B.
HUD regulations, application forms, and performance reports should be revised to clarify that the needs of low, as well as moderate income neighborhoods are to be met with CDBG funds to insure that local governments do not pursue a triage policy. There should be especially close HUD monitoring of performance on this issue.

C.
HUD should develop a minimum national standard for activities which prevent or eliminate slums or blight rather than defer automatically to a local definition of slum and blight.

D.
HUD should revise its monitoring handbook to increase the effectiveness of HUD oversight of program performance by:

1. requiring that HUD site monitors interview citizen groups which have been involved in monitoring CDBG performance, both as part of the city's citizen participation plan and independently; the groups interviewed should include all groups which have filed formal complaints with HUD concerning performance.

2. requiring especially close monitoring of the types of projects being justified as slum and blight activities to insure that they address the conditions described in the recommended national standard, and of benefit to low income as well as moderate income persons, and

3. requiring that the rate of program progress be measured against the standards set in the application and in recommendation No. VI, rather than be measured solely against the often overly slow performance of other CD recipients.

E.
HUD should develop measures of success that can be more readily recorded and monitored. New CD grant applications should be written so that HUD can determine whether CD programs have been developed according to legislative objectives (i.e. principal benefit to low income and to moderate income people).

F.
In accordance with the G.A.O. report, as HUD revises it Grantee Performance Reports (GHRs), it should require more specific information on grantee performance in comparison with the goals, objectives, and plans indicated in the grant application. The Department should reverse the steps it took in November to reduce reporting requirements on relocation and displacement, equal opportunity, and job and business opportunities. This way HUD can determine whether the program achieves its stated results and benefits and measures the progress of community programs. GPRs which are incomplete or vague should be returned to the applicant.

G.
Unspent money should be evidence of non-success and there should be national standards for draw-down rate. Eighty percent of previous year must be spent by the beginning of the following year.

H.
HUD should develop criteria which specifically relates administrative costs incurred to the needs of low and moderate income residents. Ten percent administrative costs should be considered as local entitlement with a local option to expand 20% if the criteria for meeting low and moderate income residents' needs to administrative costs are met.

I.
HUD should require cities to inventory abandonments—standardizing "vacancy" and "abandonment" definitions. HUD should require implementation of abandoned building rehabilitation programs as part of all CDBG HAP programs. All HAPs should include a systematic,

preservation-oriented local program for dealing with abandonment. A serious monitoring system could include a city flagging system—early warning system—wherein tax delinquences would be monitored as potential abandonments.

J.
CD priority must be low and moderate income. Weak warnings should be replaced by stiff penalties, i.e. direct funding instead to community groups.

K.
Increasingly, communities are rejecting their block grant allocation. In addition, HUD has denied block grant funds to communities not in conformity with block grant regulations to provide services to low and moderate income people. To insure that low and moderate income people in the locality continue to receive the intended benefit, HUD should specifically reallocate funds spurned or denied a municipality to the core city in said jurisdiction or other appropriate unit of government which best meets the needs of low and moderate income people in the surrounding communities.

XIII.
Urban Development Action Grants have favored downtown investment projects at the expense of neighborhood projects. The funding allocations under UDAG must include support for low and moderate income neighborhoods.

A.
The "reasonable balance" regulation should be strengthened to insure that one-third of all UDAG monies are allocated to neighborhood projects. HUD must be cognizant that this rule should serve as a guideline for project funding allocations as well as for the absolute number of projects. If HUD does not comply with these guidelines, Congress should reserve the option to set aside an amount equivalent to one-third of the total UDAG appropriation to fund a separate program targeted explicitly to low and moderate income and minority neighborhoods. The Commission, in fact, supports a more substantial use of UDAG funds in neighborhoods.

B.
HUD should develop a benefits test that all UDAG projects must meet. Criteria for this means test should include:

1. creation or restoration of jobs paying decent wages and offering job mobility for residents of low and moderate income neighborhoods

2. proximity of jobs created to where people in need of those jobs live

3. match-up of jobs with local skills, or with skills that could be attained through job training programs

4. low possibility of displacement through reinvestment

5. creation of new industries with expansion potential and of the expansion of existing industries

6. strong community involvement in the implementation of the project

7. projects that would substantially benefit minority residents shall receive special consideration from HUD

8. HUD shall conduct appropriate monitoring to assure that the needs of

low and moderate income and minority residents of neighborhoods are being served by the UDAG program.

C.
UDAG funding should be an initiator of private reinvestment rather than a follower. Too often UDAG funding has been used to cement plans which have been sitting on planners' shelves.

D.
HUD should provide technical assistance to developing UDAG applications directly to neighborhood and community groups. This technical assistance should be provided either by HUD, local government, or some approved organization.

XIV.
The U.S. Congress should outlaw geographic discrimination against neighborhoods.

XV.
The Administration should more clearly monitor the activities of the Open Market Committee of the Federal Reserve Board.

XVI.
The Commission makes the following additional recommendations:

A.
The record keeping of all federal agencies should be standardized by including census tract location, thereby building a bank of data on the economic flow within neighborhoods.

B.
The Commission strongly supports the appointment of individuals who are knowledgeable in the field of housing to the Federal Reserve Board.

C.
Legislation should be enacted to remove the IRS exemption for city and state bonds for housing purposes unless the funds are used in programs substantially targeted to benefit low and moderate income people.

Recommendations of the Task Force on Economic Development

I.
Federal spending and economic policies play a major role in how economic activity is distributed. Even within the scope of existing, or even reduced, federal expenditures, policies can be produced which would vitally improve the economic prospects of distressed regions, cities, and low and moderate income neighborhoods. It is possible to conduct public economic policy against the background of a set of goals which would redirect vitally needed resources back into the communities now most in need of assistance. These goals can be called a "Community Full Employment" strategy and should be implemented by all levels of government, but especially at the federal and state levels.

A.
The Inter-Agency Coordinating Council in the Executive Office of the President should be authorized not only to coordinate federal urban policies, but also to review programs from the standpoint of whether people

in poor and distressed neighborhoods are economically affected by these programs.

B.
The Economic Development Administration's Comprehensive Economic Development Strategies (CEDS) program should be proposed as legislation for EDA's 1979 reauthorization with legislative provisions for the extensive use of community development organizations in planning and implementing the CEDS on the neighborhood level.

C.
The Administration should utilize the unspent and uncommitted monies in the Local Public Works program for the purpose of implementing a highly targeted Labor Intensive Public Works Program.

D.
The EDA Title IX and HUD Urban Development Action Grant programs play a major role in the attainment of a "Community Full Employment" strategy through the adoption of the criteria proposed for the CEDS planning processes. Major criteria should include:

1. creation or retention of jobs paying decent wages and offering job mobility for residents of low and moderate income neighborhoods

2. proximity of jobs created to where people in need of these jobs live

3. match-up of jobs with local skills or skills that could be attained through job training programs

4. low possibility of neighborhood displacements

5. creation of new industries with expansion potential and/or the expansion of existing businesses

6. strong community involvement in the implementation or the initiation of the project

E.
Procedures need to be developed to assure that neighborhood impact analysis is incorporated into the planning procedures for all federal projects which may have an impact on neighborhoods.

F.
If Congress approves a National Development Bank, the legislation should insure that the Bank's programs support the broad range of neighborhood economic development interests.

G.
The Comprehensive Employment and Training agreements established by CETA prime sponsors and local Comprehensive Economic Development Strategies should be mutually consistent and coordinated.

H.

The conduct of federal procurement must be improved so that it contributes to the achievement of revitalizing distressed local communities and creates employment opportunity for low and moderate income heighborhoods.

I.
Targeted employment tax credits should be used as an incentive to plant location and hiring in poor and distressed neighborhoods.

J.
Administration proposed legislation and enacted laws must be accompanied by urban and neighborhood impact statements to be submitted by all state and local governments.

K.
States and localities enacting comprehensive urban strategies should explicitly target resources to urban areas for the purpose of upgrading the income levels of existing residents. Neighborhood based economic development programs should expressly be a part of this strategy.

L.
Local governments should inventory all possible resources for supporting neighborhood economic development, including planning, procurement, resources; establish contact points in the city government for neighborhood economic development projects; and re-evaluate all local laws pertaining to economic development that might act as constraints to neighborhood economic development.

M.
The National Commission on Neighborhoods endorses and encourages public-private partnerships for financing and assisting potential business ventures within poor or declining neighborhoods or for creating jobs principally for the unemployed or underemployed in those neighborhoods.

N.
The Commission condemns the relocation of industries from urban areas. This practice should be subject to stringent tax penalties. If employers do move, legislation should provide: adequate notification of the relocation; appropriate payments to displaced workers; provision of venture capital to municipalities, neighborhood based organizations and minority enterprises to create new businesses or expand existing corporations. More important than penalties is the provision of tax incentives to encourage industry to remain located in urban areas.

O.
The full use of transportation as a means of linking those in neighborhoods without jobs to the expanding job base in suburban areas through subscription busing and other forms of para-transit and reverse commutation.

P.
Expanded support for vocational training and/or job development to combat structural unemployment.

Q.
Provision by the federal government of equity to be utilized to support neighborhood based economic development through existing vehicles; e.g. EDA, Title IX, or the National Consumer Cooperative Bank, or through proposed vehicles such as the National Development Bank. Lack of equity provides the greatest single impediment to neighborhood based economic development. The National Commission on Neighborhoods therefore urges that the federal government provide a substantial source of venture capital to community based organizations and minority business enterprises.

R.
EDA and HUD, along with EPA, should force strict limitations on expansion of infrastructure such as sewers, highways, etc. which promote urban sprawl and move jobs away from the jobless. This criteria should also apply to the construction of highway interchanges such as that which is assisting in the removal of Union Carbide from New York City.

II.
Greater emphasis should be given to coordinating neighborhood economic development programs.

III.
All too frequently, Federal programs which can or should provide resources for neighborhood economic development operate under a set of administrative regulations which seriously impair the contributions these agencies could make. Regulations should be changed to permit the full range of neighborhood economic development activities to achieve greater access to federal programs.

A.
SBA should promulgate regulations that clearly state that no business will be denied access to SBA programs solely on the basis of being owned or operated by a nonprofit community corporation.

B.
The Department of Labor should publicize and give priority to the fact the CETA workers for community based organizations can now generate income from project earnings of the CETA employee's work. DOL should give community based organizations a wide latitude for income generating projects, especially in poor communities.

C.
Community development corporations and other successful community based organizations should be given the same "special consideration" for manpower training programs, especially youth projects that they have received for CETA public service slots. These community based organizations should also receive funding for job placement services for training program graduates.

D.
The thirty-five percent figure for funding allocations stand for both the number and the amount of the total loans made by the National Consumer Cooperative Bank.

Within the Self Help Development Fund, there should be programs established to:

1. provide outreach to neighborhood organizations to inform them of cooperative programs

2. provide capacity building planning and technical assistance to these organizations

3. fund business retention programs by consumer and producer cooperatives

4. support community development credit unions with financial management and technical assistance

Recommendations of the Task Force on Legal, Fiscal, and Administrative Obstacles

I.
It must be remembered that, desirable as it may be to streamline the process for bringing abandoned buildings back into the housing market, that alone will probably not be sufficient to ensure that low and moderate

income people are able to secure decent housing in their neighborhoods. In many cases, that objective can be met only by governmental augmentation of the incomes of low and moderate income families. Recognizing this necessity, the Commission herewith offers the following more technical recommendations for expediting the recycling of declining or abandoned properties.

A.
States should enact enabling legislation to permit the appropriate local government to efficiently recycle tax-delinquent properties back into productive use, along the lines of the Land Reutilization Authority statute in operation in Missouri.

B.
One governmental body should have the power to act as agent and trustee for all property taxing jurisdictions within cities.

C.
All property taxing jurisdictions should be allowed to bring in rem actions against tax-delinquent properties, with the additional option of in personam actions in certain cases.

D.
State law should permit consolidation of numerous tax delinquency and foreclosure actions into one suit.

E.
State law should prescribe simplified and understandable public notice requirements, to make it possible for neighborhood organizations, as well as professional buyers, to take part in tax sales.

F.
State law should empower local property tax jurisdictions to proceed against abandoned parcels immediately upon the first year's tax delinquency, and such jurisdictions should be required to do so when petitioned by an appropriate neighborhood organization.

G.
In the case of abandoned buildings which have been subjected to a foreclosure sale, state law should reduce the equity of redemption period to as little as 30 days; and in the case of occupied buildings, the period should be reduced to no more than six months.

H.
Where no buyer appears at a tax sale, the city, county, or land reutilization authority should be authorized by state law to take title immediately by forfeiture, in place of a future forfeiture sale by the state.

I.
Counties and cities should devote considerable effort to develop procedures for the efficient administration of new foreclosure laws, so that parcels can steadily move through the system to their ultimate destinations without the accumulation of backlogs.

J.
The tax foreclosure process should be closely linked administratively with the city agencies which deal with neighborhood housing improvement organizations, to facilitate the conveyance of parcels to such groups, and to provide technical assistance in obtaining rehabilitation financing, qualified contractors, prompt code inspections during rehabilitation, and sound marketing procedures.

K.
Congress should enact a Uniform Federal Mortgage Foreclosure Act applicable to all federally insured or guaranteed one-to-four family mortgages created after the effective date of the act, and retroactive to the extent possible under the due process and contract clause requirements of the Constitution.

L.
Congress should insist that HUD conscientiously comply within six months with the mandate of Section 109 of the Housing and Urban Development Act of 1968, by presenting a comprehensive report on the potential of a home owner's equity insurance program to protect homeowners against loss of their homes as a result of death, disability, illness, and involuntary unemployment.

M.
City governments should establish a policy of relying upon neighborhood corporations, tenant organizations, and cooperatives to serve as receivers for dilapidated buildings, where such organizations have or can be helped to develop sufficient capacity to discharge such responsibilities. Receiver organizations should be given broad latitude to act quickly and effectively to restore the building to decency and economic viability, subject to governmental post-audits and perhaps performance bonuses.

N.
States should modify present laws governing public and private nuisance to make it simpler and more effective for neighborhood organizations to bring legal actions to force salutary changes in building ownership and managment.

O.
States should examine the experience of neighborhood redevelopment corporation laws, and enact such laws in forms designed to maximize the opportunity of neighborhood residents to conduct revitalization projects under their own control.

P.
HUD should promptly commission a detailed legal study of the possible application of the carried interest and compulsory unitization principles in American petroleum law to the problems of encouraging neighborhood housing revitalization; and HUD should provide technical assistance and coordinated support for the implementation of such a law if and when enacted by a state legislature.

Q.
City and county governments, with the assistance of state and federal governments, should redesign their public land information systems into consolidated, comprehensive systems which are readily accessible to citizens and neighborhood organizations as well as to public officials and housing industry professionals.

R.
Section 13 of the Real Estate Settlement Practices Act of 1974 should be amended to direct HUD to support demonstrations of the feasibility of such consolidated, comprehensive land information systems, in addition to HUD's present mandate to support model land title recordation systems.

S.
State and local governments should proceed with the installation of Torrens title registration systems; and HUD should be authorized to provide

financial assistance to states and local governments undertaking this conversion.

T.
States should adopt a model uniform conveyancing statute, which goes as far as possible in simplifying the conveyancing process and reducing the costs thereof.

II.
Racial transition in neighborhoods is occurring. The tensions that accompany this process often are ruthlessly exploited by operatives of the real estate market and are handled in such a way that either exclude minorities from some neighborhoods or cause a mass exodus that makes integrated neighborhoods a near impossibility. These patterns need not persist. The social health of cities and their neighborhoods require that we achieve enforcement of equal housing opportunities.

A.
The Office of Management and Budget should direct its A-95 clearinghouse organizations to specifically address the impact of proposed projects on opportunities for lower income and minority groups.

B.
Title VIII of the Civil Rights Act of 1978, which forbids racial discrimination in the sale, rental, financing or brokering of real estate, should be strongly enforced.

C.
Congress should provide additional staffing and funding for HUD's Office of Fair Housing and Equal Opportunity, to permit it to more effectively secure compliance with the law and to monitor agreements reached.

D.
HUD should enter into agreements with neighborhood groups dedicated to orderly racial integration of their neighborhoods to enlist such groups in enforcing and monitoring the act. Such groups should be funded to engage in testing programs to identify violators of the law.

E.
HUD should provide strong support and legal assistance to private parties who bring civil enforcement actions under Section 808 of the act, including neighborhood organizations joining as plaintiffs.

F.
State real estate regulatory commissions should suspend the licenses of agents found to have engaged in racial steering. HUD and VA should prohibit such agents from participating in their housing programs for a specified length of time. Lenders regulated by public agencies should be prohibited from doing business with such agents. Where a pattern of racial steering is demonstated with respect to a substantial number of agents from the same firm, the suspensions and prohibitions should be taken against the entire firm.

G.
The present statutory limit of $1,000 in punitive damages in civil suits should be raised to $5,000 since actual damages may be difficult to establish.

H.
HUD should compile and make widely available practical information about local programs designed to achieve orderly racial intergration in

urban neighborhoods, such as the Northeast Real Estate Conservation project in Balitmore and the Equity Assurance program in Oak Park, Illinois.

III.

Federal income tax policies can act as both an incentive and a disincentive to neighborhood revitalization. The following actions can make the income tax system a more effective tool for rehabilitating and revitalizing neighborhoods.

A.

Section 167 (k) of the Internal Revenue Code, allowing five year amortization of rehab expenditures with respect to low and moderate income housing, should be continued after 1981, unless significant changes are made elsewhere in the Code to promote the same objectives.

B.

Section 191 of the Internal Revenue Code, allowing five year amortization of rehab expenditures with respect to certified historic structures, should be allowed to expire in 1981.

C.

Owners of substantially rehabilitated housing, both government-assisted and market rate, should be allowed to use 200% declining balance depreciation; but owners of new multifamily housing should be limited to 150%.

D.

Owners of rental housing should be allowed to set aside a tax-deductible maintenance reserve of from 5% to 10% of gross rents. Such amounts would remain in a blocked account until withdrawn to pay for later maintenance and renovation expenses.

E.

The Internal Revenue Code should be changed so as to encourage initial tax shelter seeking investors to convey a rental housing project to a qualified neighborhood housing corporation after a period of ten years. If that neighborhood housing corporation properly manages the building for an additional five years after the conveyance, the initial owners would be relieved of back-end tax exposure resulting from excess depreciation tax preferences, and capital gains resulting from mortgage in excess of basis; in addition, the owners would be allowed to claim a charitable deduction for their equity, phased in pro rata over that period.

F.

The Internal Revenue code should be amended to permit creation of Community Reinvestment Trusts as a vehicle for allowing neighborhood residents to invest in the improvement of their neighborhoods. The Trust would employ capital to sponsor housing improvement in the neighborhood. Earnings and capital gains accruing to the Trust would be passed through to investors free of corporate-level taxation. Investors would be entitiled to take a 10% tax credit on their investment, up to a ceiling, and their capital investment would be insured for a premium by a HUD program analagous to Federal Deposit Insurance Corporation coverage of savings accounts.

G.

States should act promptly to enact legislation allowing corporations and financial institutions to claim tax credits for amounts invested by such taxpayers in community revitalization activities, as under the successful

Pennsylvania Neighborhood Assistance Act. The federal government should consider offering a parallel credit to partially match state credits.

H.
State and Federal governments should refrain from mandating expenditures on local governments unless those higher levels of government are willing to provide at least the great bulk of the necessary revenues.

I.
Cities should re-examine their service delivery programs to determine what mix of "free" services and user-supported services would be most appropriate. HUD should encourage more research on the practical consequences of various user fee plans now in operation, and make that information available to interested cities. HUD should also underwrite a demonstration project for a user-fee plus direct subsidy program to test its administrative workability.

J.
The Internal Revenue Code should be amended to create a new Section 501 (c) paragraph for Neighborhood Improvement Corporations, which would have the right to engage in certain revenue-generating activities and play a defined role in influencing legislation.

IV.
The present method of property taxation helps to destroy neighborhood stability. The property tax imposes regressive burdens on tenants and homeowners, which, in some cases, amounts to an excessive percentage of income. The property tax fosters abandonment and displacements in low and moderate income neighborhoods. The utilization of fair market value to determine property tax rates discriminates against homeowners and tenants in an inflationary economy, which allows commercial property owners to deduct for increased operating costs, but denies these rights to residents and tenants.

Increasingly, economists have questioned the legitimacy of using the fair market assessment itself. Property tax reform should be based upon the ability to pay. Cities and towns should look to tax exempt institutions, to suburban residents who use the city as a source of income and of pleasure, to expand the base of the property tax to eliminate any unfair exemptions for the rich. Most importantly, neighborhoods must look to state governments who control the form of property taxation to provide leadership in lessening the burden of the property tax on our neighborhoods. The property tax system can be improved in the following ways:

A.
The federal government should provide incentive funding through general revenue sharing to those states that shift the state and local tax burden away from local property taxes to a more progressive tax system.

B.
A major federal study should be initiated on the impact of the property tax system on residential neighborhoods. This study, to be coordinated by the Department of Housing and Urban Development, should include an evaluation of the fair market assessment system in view of continued high rates of inflation and fluctuations in the supply of urban housing. The study should also recommend ways of using property tax reform to foster neighborhood and urban development.

C.
The following property tax reforms should be adopted on the state and local level:

1. a limitation on the effective tax rate on residential units, with increased state aid and/or broadened taxing power made available to local governments to make up the short-fall in municipal revenues resulting from this limitation
2. the use of "circuit breakers", applicable to both tenants and homeowners, to limit a family's tax liability to a fixed percentage of its annual income
3. the differential use of rates for different property uses, i.e. residential and commercial
4. procedures to insure that reductions in property taxes are passed on to tenants and are not used as a source of speculative profit by real estate developers and landlords
5. a broadened definition of real property to include intangible property such as stocks and bonds
6. a state program of payments in lieu of taxes to local governments for vacant and abandoned property rehabilitated by community-based organizations for low and moderate income families
7. effective oversight of the assessment system by neighborhood groups and elected officials to make sure it is used as a tool for progressive taxation rather than as a source of political favoritism
8. reassessment on a three-year cycle to take account of fluctuations in property values in neighborhoods undergoing rapid economic change
9. development of an "early warning system" to identify neighborhoods which may be on a downward slide, along with a program of corrective action of the local government to reverse the slide and stimulate neighborhood revitalization
10. consideration of the use of direct cash grants and interest subsidies to spur neighborhood revitalization, rather than juggling abatements and exemptions which reduce the property tax base
11. replacement of abatement policies for industrial and commercial growth with a shared risk plan, whereby the city is reimbursed for deferred property taxes through a net profits surtax on the affected businesses
12. recognition that legal restrictions on development embodied in urban land trust deeds justifies the taxation of such trusts only on the basis of permitted use value
13. payment of full property taxes by the federal government on federal buildings and installations in cities
14. consolidation of the property tax data base, so that all relevant information can be quickly obtained by citizens and taxpayers as well as by professionals
15. an understandable and smoothly functioning notification and appeals system, which unambiguously informs each taxpayer of his or her assessment, fair market value, amount due, payment dates, appeals rights and procedures, and other relevant information
16. use of the Florida "truth in property taxation" process, which informs

each taxpayer of proposals for increases of his or her tax payment in advance of city council action, giving taxpayers full opportunity to participate in the debate over the increase

17. the consideration by local governments of the possibility of taxing the land underlying tax-exempt institutions, and assessment of taxes on normal commercial property owned by exempt institutions

V.

Even in cases where property ownership is not at issue, and the economics of taxation policies do not act as disincentives, a myriad of regulations and practices often mitigates against rehabilitation of existing properties. Chief among the problems are building codes which are designed for new construction and are not readily adaptible to the structural issues in rehabilitation; zoning practices which often insist on "single", or homogeneous uses of land and thereby stifle the diversity which is the hallmark of successful neighborhoods.

A.

Existing building code systems should be improved by:

1. including performance standards as an option to specifications
2. consolidating the four leading model codes insofar as possible to achieve uniformity
3. accelerating the process of new materials and technology testing and approval
4. creating a set of workable guidelines for rehabilitation, with enough flexibility to permit inspectors to make reasonable adjustments in light of special conditions
5. enacting state building codes to serve as a ceiling on local requirements, absenting extraordinary conditions
6. withholding federal housing subsidy allocations from municipalities which continue to maintain wholly unreasonable cost-inflating code requirements
7. providing training courses and technical assistance for local building code departments and personnel
8. encouraging administrative improvements in the direction of "one stop shopping" for permits at the local level
9. providing a state building code appeals board to deal with the differences of opinion between builder and inspector
10. offering pre-permit counseling for builders, homeowners, and neighborhood housing corporations
11. creating a surety bond program for inspectors; or, alternatively, relieving inspectors of all liability other than that resulting from gross or willful negligence
12. amending the HUD Minimum Property Standards so that they are deemed to be satisfied wherever a building complies with an approved local building code

B.
States should begin to consider implementing a building safety program which leads away from the present municipal building code enforcement system. The alternative program would be built upon:

1. a basic life safety code covering structural safety, fire safety, and egress

2. a set of generally accepted guidelines for both new construction and rehabilitation, including performance-based options wherever possible

3. certification by state-licensed design professionals of the extent of compliance with, and necessary departures from, the code guidelines, filed as a matter of public record and keyed to the local land record information system. Design professionals should be allowed to allocate up to 15% of annual gross income to a tax deductible loss reserve account, to allow effective self-insurance against malpractice claims

4. legal responsibility of the contractor under state law for the performance of major building systems for a period of ten years following completion

5. development of an information system that permits ready display of the contractor's performance to prospective housing sponsors

C.
Cities and states should give increased consideration to techniques for guiding land use which avoid the problems inherent in traditional zoning. Among those techniques are private convenant agreements, transferable development rights, and public or neighborhood land ownership.

D.
Neighborhood organizations and labor unions should work together to resolve problems arising from the prevailing wage and work rule provisions of the Davis-Bacon Act.

E.
Labor unions should give emphasis to outreach programs to recruit minorities for apprenticeship training, working closely with local school systems to ensure that interested students be made aware of the educational skills, especially in mathematics, that are necessary to gain entrance into apprenticeship programs.

F.
State boards for each trade should include one or more "public interest" members who are not themselves active in the particular construction industry.

Recommendations of the Task Force on Human Services

I.
During the evolution of the contemporary human service delivery system, a number of bureaucratic, professionalized and centralized features came to dominate the system. As is so often the case, specialized services were offered. After years of experimenting with various approaches and ideas, it is now time to devise means for integrating the delivery of services and bringing the delivery of services back to the neighborhood level.

A.
The Department of Health, Education and Welfare should strengthen the

capacity of city government to act as a catalyst in the development of more effective human services. While city government may not directly operate service programs, they can and should play a direct role in planning, allocating, and evaluating the full range of services funded from public and private sources including the United Way.

This catalytic role should enable city government to serve as an advocate for improved human services in partnership with neighborhood organizations and neighborhood residents.

B.
The Department of Health, Education and Welfare should provide direct funding on a demonstration basis to neighborhood organizations for the purpose of developing neighborhood human services systems. These neighborhood systems, modeled after the Neighborhood Housing Services (NHS) projects, would serve to integrate human services activities on a local level through improved partnerships between local residents, neighborhood organizations, private service providers, and governments at the federal, state, and local levels. This demonstration effort, to be targeted on low income neighborhoods, could be organized and funded under Section 1110 and 1115 of the Social Security Act, which authorizes the Secretary of HEW to fund research projects and to waive certain statutory and administrative requirements for Social Security Act programs such as Title XX.

Following completion of this demonstration program, legislation should be adopted to provide a 2 percent set-aside of Title XX funds for use in developing neighborhood human service systems. These funds would be allocated directly to neighborhood organizations at the discretion of the Secretary of HEW, who would be responsible for monitoring and evaluating the neighborhood systems. No state or local match would be required under this set-aside program.

C.
The Commission recommends that the Department of Health, Education and Welfare establish neighborhood advocate posts operating out of the offices of the regional administrators. These advocates would be responsible for assisting neighborhood organizations in drawing on the full range of HEW programs that can contribute to the development of neighborhood service systems. The advocates would help to funnel training, technical assistance and program funds to neighborhood organizations. By working through the Federal Regional Councils, they would also help arrange linkages with programs outside of HEW, including those in HUD, Justice, CSA and ACTION, which provide support for neighborhood-based human services programs.

D.
The Department of Health, Education and Welfare should initiate research and demonstration projects designed to determine the neighborhood characteristics that shape service delivery systems, and the extent to which such logistical factors as the availability of transportation impede the effective delivery of services. In designing these research and demonstration efforts, special attention should be given to problems of minorities, the poor, and the elderly.

II.
Title XX of the Social Security Act is by far the most significant federal human services effort for neighborhoods, both in terms of the level of funding and in terms of the scope of services offered. Title XX is funded presently at $2.9 billion and is used to fund more than 40 separate services. In any reorganization of the delivery of social services, Title XX plays a most significant role.

A.
Legislation should be enacted by Congress to permit private, nonprofit organizations, such as universities and neighborhood organizations, to contribute to the local match required under Title XX on an "in-kind" basis. Currently, states must match federal Title XX dollars on a ratio of 25 percent state funding to 75 percent federal funding. Private nonprofit organizations can contribute to the state match but only on a cash basis. An "in-kind" matching arrangement would enable service organizations to credit their staff and facilities costs toward the 15 percent match.

B.
Legislation should be enacted by Congress to raise the Title XX funding ceiling in accordance with a 1978 bill approved by the House of Representatives which provided a three-stepped increase in yearly increments of $200 million, $250 million and $300 million. The second and third steps in this three-year program should come on top of the current $2.9 billion ceiling. These increases should be made permanent.

C.
Training and technical assistance funds already authorized by legislation such as Title XX, the Crime Control and Safe Streets Act, and the Community Mental Health Amendments should be redirected to promote improved linkages between professional service providers and neighborhood helping networks. The Title XX training program should be broadened by eliminating the restriction which allows training to be provided only for the staffs of state Title XX agencies and Title XX service providers. The elimination of this restriction would permit Title XX training funds to be used to assist neighborhood organizations in developing new human services partnerships in their communities.

D.
Title XX should be amended to require citizen participation in the evaluation of Title XX programs. Technical assistance should be provided to neighborhood organizations to enable them to participate more effectively in the evaluation process.

E.
All levels of government should hire minority human services experts who have a commitment to and understanding of the needs of their constituents. Federal procedures should be established for ongoing consultation with minority leaders and groups for the review and monitoring of human services policies that affect minority people.

III.
The Commission identified certain specific items upon which we wish to comment:

A.
The Administration on Aging should give special emphasis to neighborhood-based programs such as the multi-service senior centers and the neighborhood service networks for the elderly.

B.
Priority in the allocation of economic development funds should go to those projects which include human services components (for example, a light manufacturing plant which provides day care services for its employees).

C.
The problems of crime and fear are of major importance to this nation's urban neighborhoods. Both crime and fear have a significant negative impact on the people who live and work in urban neighborhoods, and are

clearly linked with the destabilization of once healthy neighborhoods. Therefore, the National Commission on Neighborhoods urges action on the following recommendations:

1. Funds cut from the Community Anti-Crime Program should be restored.

2. LEAA reorganization legislation should be redrafted to include a much stronger role for the neighborhood perspective in program policy making and to encourage funding support for innovative neighborhood-based strategies.

- Clear responsibility should be placed on the Administrator of the Law Enforcement Assistant Administration to maker certain that state, county and local governments use a substantial portion of their formula grants to establish or expand community and neighborhood based programs that enable citizens to undertake initiatives designed to reduce the rate of local neighborhood crime.
- The composition of state planning councils, which determine how state formula grants will be used, should be revised to substantially increase the number of representatives of neighborhood and community based organizations.
- The formula for allocating LEAA funds should be adjusted to give weight to crimes of major concern to neighborhoods such as arson, auto theft, prostitution, and drug offenses.

3. Government at all levels should be required to provide increased technical assistance to neighborhoods to identify public safety problems, analyze priorities, and devise neighborhood level strategies to respond to major concerns.

4. Local police departments should shift from centralized operations to implementation of decentralized, neighborhood oriented policies to deliver services on the basis of neighborhood priorities, to encourage meaningful neighborhood input to policy making through formal structures such as neighborhood advisory committees, and to develop active crime and fear reduction strategies for implementation by neighborhood organizations.

5. The federal government should increase research efforts aimed at determining the relationship of the physical environment, including design considerations for housing units and businesses, to crime and fear. The Department of Housing and Urban Development should require that basic "defensible space" opportunity reduction concepts be included in the designs for construction or renovation of all public housing projects.

6. "Target hardening" efforts—taking protective measures to physically secure property such as the installation of proper door and window locks—should be accepted by the insurance industry as a means to reduce the risks of economic loss, and homeowner's insurance rate reductions should be made available as an industry practice to encourage such efforts. All federally supported housing rehabilitation efforts should be encouraged to meet established crime prevention building security standards.

7. Local governments should be encouraged to make crime reduction strategies an integral part of local efforts to attract industry and businesses back into urban neighborhoods. To the extent that unemployed or underemployed youths participate disproportionately

in committing crimes, crime prevention strategies should be devised with employment components to provide jobs for this population. Experience in several cities indicates that otherwise troublesome youth can be successfully trained and employed for community services purposes as part of crime prevention strategies, including such activities as neighborhood sponsored private security guards or as escorts for elderly citizens.

8. The crime of arson should be upgraded from class II to class I in the UCR reporting system to reflect its critical importance to neighborhood stabilization efforts.

9. Strategies such as police crisis intervention programs, should be established at the local level to encourage cooperation between police and social service professionals. This cooperation should include the development of improved training for police officers in handling special human problems, and the creation of social service resources available to police around the clock, particularly at night when most social service agencies are closed.

10. There should be a concerted attempt at all levels of government and in the private sector to develop service and advocacy programs for crime victims, with particular attention paid to elderly victims, rape victims, battered women, and abused children.

11. Local governments should be encouraged to develop relevant strategies to inform and educate the public for the purpose of allaying unreasonable fears of citizens, such as neighborhood-based rumor control centers.

12. The federal government should expand funding for implementation of neighborhood justice centers in more cities as alternative mechanisms to the police or courts for solving neighborhood conflicts.

D.

Transportation systems dictate who can get where and at what cost. Often these systems dictate the health of neighborhoods. The National Commission on Neighborhoods calls for a new neighborhood-based transportation policy that can contribute to the economic strength of neighborhoods and provide improved access to suburban jobs for urban workers. This policy would include the following components:

1. Greater attention to the needs of the transit dependents. Neighborhoods are often the home of the elderly, the physically handicapped and those unable to afford automobiles. State, federal, and local programs should provide access through a variety of forms of para-transit including shared taxis, dial-a-ride, and subscription busing to jobs and vital services. The Commission wishes to draw attention to the neighborhood-based and para-transit programs developed by the City of Knoxville, Tennessee. Knoxville has provided significant national leadership in this area.

2. Increased capital investment for transportation in neighborhood commercial areas. Improvements such as off-street parking, neighborhood mall development, and revised traffic flow patterns would facilitate the attractiveness and viability of neighborhood commercial strips.

3. Transportation-related improvements such as appropriately located parking garages and improved bus service to central business districts to facilitate job creating development in downtown commercial areas.

4. Increased use of mass transit to maintain the economic viability of cities while complying with federal clean air requirements. In the absence of adequate mass transit, federal controls on motor vehicle emissions potentially threaten the economic development of many central cities.

Compounded Problems Confronting Racial Minorities in Urban Neighborhoods

The Commission endorses the five principles which the Congressional Black Caucus believes are essential to an urban policy for the United States. These principles are:

1. The Federal budget must be reordered so as to provide adequate resources for urban revitalization.

2. Physical development of housing, public facilities, and transportation must be focused on people living in areas of concentrated poverty, must provide job opportunities to those persons, and must not displace them from their neighborhoods.

3. Tax policy and other federal expenditures must support the revitalization of cities rather than continue to undercut central cities while building up suburban areas. This includes federal procurement and contracting as well as direct federal financial assistance.

4. Transportation policy must be reoriented so as to bring lower-income persons to jobs which have moved out of the central city rather than moving their wealthier suburbanites to their inner-city jobs. There must be at the same time movement of jobs back to the inner-city.

5. Consolidation of human services for more effective delivery at the state and local level must be done in a manner which promotes jobs for residents of areas of concentrated poverty.

The Commission, in its deliberations, has also developed its own agenda of recommendations. The following recommendations, from an issue conference held by the Commission, are actions that could have been taken, should have been enacted, and must now be achieved.

1. Assistance to minority neighborhoods through housing, economic aid or other programs needs to be increased.

2. Community and economic development programs shall mandate provisions for increased participation by minority and low income community-based organizations.

3. The federal government shall provide incentives and training programs for neighborhood groups in program planning and evaluation in order for them to effectively collaborate with elected officials and administrators.

4. Funding priorities for neighborhood development shall be adequate enough for minorities to minimize competition and to ensure that minority and low income communities receive a share which is proportionate to their needs.

5. Program guidelines for citizen and neighborhood participation shall be clear and precise and specifically include minority and low income

neighborhoods. Guidelines shall mandate representation from neighborhood organizations on all city policy boards which administer federal funds.

6. Neighborhood lobbyists are needed at every level of government to advocate and to evaluate legislative proposals and regulations. A more activist stance is necessary and it shall include minority involvement and perspectives from the outset.

7. The government's capacity building for financial management and the leveraging of funds and programs shall be expanded to train minority and low income neighborhood residents. Minority neighborhood groups need training in federal grantsmanship and in the legislative process. This training and technical assistance shall be provided by federal funds.

8. Increased neighborhood funding is required if there are to be measurable program outcomes and if inter-group competition is to be minimized.

9. All levels of the public and private sector shall hire minority neighborhood development experts who have a commitment to and an understanding of the needs of their constituents.

10. There shall be extensive minority staff participation in commissions and other government-sponsored organizations which deal with neighborhood development.

11. Federal procedures, including the strengthening of mandated participation and A-95 procedures, need to be established for ongoing consultation with minority leaders and groups for the review and monitoring of policies which affect urban and minority communities.

12. All national programs and policies that impact on minority communities shall be coordinated to prevent duplication and promote maximum community growth and development.

13. Educational programs and planning procedures should be instituted to bring neighborhood groups and the private sector together to assess community needs and resources. Agreement should be sought on the following: indicators of economic distress; evaluation of resources; range of alternative strategies; and on the role to be played in economic development and reinvestment programs by various public and private agencies and individuals.

14. The private sector should be urged to study and implement economic strategies which have been successful in other neighborhoods throughout the country. The economic empowerment and involvement of minority businesses should be an essential part of this effort.

15. The federal government should design program regulations and guidelines which will facilitate neighborhood leveraging of funds and programs. Complicated applications, unrealistic deadlines, frequent revisions of programs, and exaggerated fund commitment procedures should be eliminated.

Recommendations of the Task Force on Governance, Citizen Participation and Neighborhood Empowerment

I.
The Traditional Political Process—Political Parties

A.
The Commission calls on all political parties to recognize the importance of neighborhoods as a vital focus of political activity by establishing an Office for Neighborhood Policy at the national level and to urge state political organizations to do likewise. All political parties should hold hearings on neighborhood related issues and include those issues in their national and state party platforms.

B.
The Commission recommends that political parties should attempt to develop more ties to neighborhoods and neighborhood organizations. Both Democratic and Republican ward and precinct organizations should be utilized to a greater extent as vehicles for local policy development. The parties should seek out neighborhood activists to serve on local committees.

C.
The Commission condemns city annexation policies or annexation schemes that tend to dilute minority representation. Except where it would be harmful to the main city in the region, equitable regional policies such as tax base sharing and economic planning should be established to create equitable partnerships.

D.
City electoral processes are generally more responsive to neighborhood needs within district forms of representation. The Commission urges the cities without such outlets for local representation to establish such processes as district elections or a combination of district and at-large elections.

II.
Federally Mandated Citizen Participation

A.
All government agencies and state and local governments should be required to submit and publicize written citizen participation plans for all activities that legislatively or administratively mandate citizen participation.

1. review of citizen participation plans should be conducted by an agent or level of government other than the unit of government submitting the plan to determine whether the plan meets the legislative or administrative requirements for participation.

2. HUD regulations for CDBG and UDAG funding should require that the citizen participation plan be submitted to HUD.

3. citizens should be sought out to take part in the development and review of all CP plans.

4. CP plans should include community input not just during the project review but throughout the planning, implementations, and evaluation/monetary stages of the project's activity.

5. HUD regulations for CDBG and UDAG funding should guarantee

effective citizen input at the planning, interpretation, and evaluation stages of the project.

6. as a project proceeds, revision should be required in the citizen participation plan. Citizens will have an effective role in the review of evaluations.

7. where neighborhood groups exist, these groups should be given priority to select representatives to citizen advisory boards, task forces, etc., through a fair and open process.

8. the selection of representatives by appointment should be avoided except when it is the only means available to assure equitable representation, consistent with the principles of civil and human rights.

B.

For issues and projects potentially affecting neighborhoods, citywide and regional agencies should be required to notify neighborhood organizations of impending planning and decision making, and provide the opportunity to participate in the decision making.

1. regional plans should be developed with the assistance of technical staff for neighborhoods to develop their own options to be incorporated in the overall plan;

2. neighborhood groups should receive notices for A-95 review on any proposed project which has a potential impact on the neighborhood;

3. citizen participation structures should be dominated by those people on whom the federal agency actions will have the greatest impact; the representatives should be most representative of the racial and economic character of the community.

C.

The Commission calls for a GAO audit of the funds utilized for citizen participation activities in all departments with a legislative or administrative mandate for citizen involvement:

1. the audit should closely review the amount of funds committed to citizen participation as well as the effectiveness of the citizen participation activity based on the goals outlined by each agency;

2. funds that are found to be spent for promoting the interests and activities of the agency or department, rather than encouraging participation in decision-making, should be redirected to carry out genuine participation activities.

D.

Where possible, neighborhood and community organizations and coalitions should be funded to carry out citizen participation functions including the planning and implementation of the participation process.

1. neighborhood and community organizations and coalitions should be funded to participate in the evaluation and monitoring of programs that directly impact upon the community.

E.

HUD should require that the program priorities submitted by local governments for CDBG funds should include the recommendations of the citizen participation process and should document the reasons why the city did not adjust the program to meet the community's requests. The citizen participation process should permit a detailed review of the CDBG application and allocate enough money and technical assistance for this review to take place. There should be documentation required to indicate the community had this timely and effective role in the development of the proposal.

F.

Where it is determined that a local government or state or federal agency has not met the requirements for citizen participation mandated by legislative or administrative action, the project funding should be halted until an acceptable citizen participation plan is implemented.

III.

Neighborhood Sub-Units of Government

There is a growing number of neighborhood organizations officially recognized by city government, such as neighborhood planning units, neighborhood councils, and community councils. The National Commission on Neighborhoods encourages the independence of these organizations and the development of their capacity to act.

IV.

Neighborhood Controlled Development - Historic Preservation

A.

The Commission recommends that all levels of government must develop strong policies which insure that historic preservation programs do not contribute to displacement of low and moderate income and minority residents of the designated areas. These policies must include a monitoring system which will consistently and effectively review preservation programs throughout their implementation phase.

B.

The National Register designation of a district should have a statement of impact on the area designated and, when identified, the National Register area should be available for additional assistance, set-asides, bonuses, technical assistance, and demonstration grants or other available resources. The statement of impact should be a preliminary identification of the potential or ongoing changes in the neighborhood. The design and implementation of such an impact statement could be created through the Advisory Council on historic preservation, the federal inter-agency council on historic preservation, since there would need to be ongoing involvement, coordination and cooperation of at least HUD and the Department of Interior, not only in the creation and design but also in the implementation.

C.

The Commission recommends that the Advisory Council on Historic Preservation expand the programmatic and policy role they now have in the field of historic preservation. There is a definite need at the federal level for an inter-agency coordinating group, which the Advisory Council is, to have positive and continuing impact on policy and programs relating to problems and opportunities in the field of historic preservation.

D.

The Commission recommends that direct technical assistance should be made available to all actors in the rehabilitation partnership.

E.

The Commission recommends that historic preservation funds should be able to be combined with other federal funds in non-profit organizations for projects that benefit low income people, minorities and the elderly.

F.
The Commission recommends that additional categories be added to the National Register, which could include neighborhoods and neighborhood conservation areas.

G.
The Commission recommends, as exemplified by the United Manchester Redevelopment Committee of Pittsburgh, Pennsylvania, which has utilized the historic and architectural qualities in their integrated neighborhood to revitalize it, that national organizations and federal agencies should actively assist minorities through communication, programs, etc., to understand and take advantage of the historic preservation movement in America. The Manchester neighborhood has written, and the Commission agrees, that due to a lack of understanding and unfamiliarity with the available resources on the part of many minority people, they are not benefiting from their heritage in terms of revitalization and stabilization of their neighborhood without losing control.

V.
Issue-Oriented Advocacy Organizations

The National Commission on Neighborhoods recognizes that in many neighborhoods advocacy organizing continues to be the only means through which disenfranchised neighborhood residents can develop the leadership and power necessary to control their future. Because independence is crucial to this process, it is recommended that:

A.
Advocacy organizations should receive their primary funding from community or other private sources;

B.
Federal funding for the core budget of grassroots advocacy organizations should not be so great as to threaten their independence;

C.
Because leadership development by skilled organizers is central to the issue advocacy process, continued independent training of organizers and leadership should be supported in order to harness the grassroots networks, voluntary associations and other human resources in neighborhoods;

D.
Where federal money is used to fund training of staff and leadership, local, regional and national training organizations should be contracted to provide such training.

VI.
The Role of City Government

City government is the level closest to the needs of the neighborhood that is often inadequately structured to provide city services in an equitable and integrated fashion. City government must become supportive of neighborhood groups as a necessary extension of the governance of the city and its neighborhoods. City governments should restructure themselves so that they can form partnerships with neighborhood organizations in the delivery of services.

A.
The National Commission on Neighborhoods recommends that in order to

respond the diverse needs of a city's neighborhoods, and in order to assure the equitable distribution of resources, city governments should:

1. increase contractual delegation of program responsibilities to advanced community organizations;

2. increase emphasis on a local government role as grantor of program resources and provider of technical assistance where requested by the community;

3. increase local government capability to support the enforcement of regulatory laws: unnecessary and discriminatory rate increases by utility companies should be challenged; redlining by banks and insurance companies should be penalized. State and other local governments who fail to fulfill their statutory obligations to neighborhoods should always be confronted. In addition, corporations which fail to live up to their affirmative action obligations should be challenged by local government.

4. use their political and organizational resources to assist and support the autonomous organizations of neighborhoods to fight for legislation in state capitals, in Washington, and locally.

5. develop a training program for middle management and city supervisory personnel to assist them in better understanding the need for neighborhood oriented service delivery;

6. make both resources and technical assistance available to neighborhood organizations;

7. contract with advanced neighborhood organization to evaluate and monitor programs. Such groups may often be in a better position than the city to perform these roles.

8. to help bind the partnership between neighborhoods and city government, municipal employees, including police, fire, and school personnel, should be required to reside in the employing city. Any effort by state or federal laws and regulations which interferes with local resident requirements should be opposed strongly; federal funds should be denied to any state that prohibits residency requirements.

9. Civil service laws should be modified to assure that local bureaucracies are truly responsible. These reforms should make it possible for elected officials to dismiss incompetent employees, to give incentives to civil servants for outstanding work, and to adjust job certification standards, to achieve greater consonance between assigned tasks and the qualifications to perform them.

B.

City government needs the flexibility to respond to the needs of diverse neighborhoods. Since different neighborhoods have different needs and need different levels of support, city agencies must develop the capacity to be able simultaneously to operate a program in one neighborhood, support a community organization which is running a similar program in another neighborhood, and work to replicate the program, with innovations, in a third area.

C.

When it would result in government more responsive to neighborhood needs, cities should administratively decentralize service to the neighborhood level, making sure that service district boundaries coincide with neighborhood boundaries.

D.

National organizations such as the League of Cities, the Conference of Mayors, the International City Managers Association, the National Association of Counties and the National Governors Conference should:

1. Officially recognize the critical importance of a neighborhood-based strategy to urban development;
2. Develop and implement effective information and training programs for their members in conjunction with local and national organizations that have had extensive experience in acting as intermediary groups between government programs and neighborhoods. They should directly involve experienced neighborhood-based staff and leaders in the development and implementation of such training programs.

E.

In order to effectively utilize federal programs to build neighborhood-competent governments, Intergovernmental Personnel Act (IPA) staff should be responsible for coordination, monitoring and evaluation of all training and technical assistance funding conducted under provisions of the Joint Funding Simplification Act. Joint funding agreements have tremendous potential for increasing the impact of training and technical assistance funds and programs at the local level. A mechanism must be established to coordinate such efforts. Further, a clearinghouse which can inform relevant Federal funding sources of the direction and status of other agencies and programs must also be developed. Such a mechanism would go a long way to insuring the more effective targeting and mutual support for federally-funded capacity building and technical assistance effort.

Further, we recommend:

1. Funding of the IPA program should be increased to $25 million in FY 79-80. Of this amount at least $8 million should be discretionary to be utilized for national demonstration grants;
2. IPA directives should be altered by the Chairman of the Civil Service Commission or his designee (Director of the Bureau of Intergovernmental Personnel Programs) to emphasize training proposals which directly relate to neighborhood revitalization and the creative support of neighborhood-based partnerships.
3. To require no matching amounts of total program costs and to permit funding of training and technical assistance programs which involve citizens and public officials together;
4. Nonprofit organizations and especially community organizations should be eligible for assistance from IPA directed at improving the general management systems of community organizations. This change would permit community organizations and like groups to build their internal systems so as to enable them to better play partnership roles with local government.

F.

We propose that HUD Section 701 funds be available to cities for management, policy/planning, evaluation and technical assistance that directly address the cities ability to function as a neighborhood competent government.

1. That citizen participation be a requirement of the submission process.
2. That when neighborhood analyses are part of the application process, the appropriate neighborhood be the site of a local public hearing prior to submission of the application, and that the neighborhood agree to actively participate in the project.

G.

All Government Programs. The Federal government should include specific targeted funds for training, capacity building and technical assistance for citizens, public officials, and the private sector in all future urban related programs.

H.

The National Commission on Neighborhoods proposes, that, relative to Federal funding, training or technical assistance for community organizations, Mayoral *comments* should be considered by the Federal proposal reviewers on their merits, and on the compatibility between the proposed activity and the local government's plans and priorities. Negative comments should *not* necessarily constitute a veto.

VII.

Few programs exist on the state level to assist cities and neighborhoods with revitalization strategies. The National Commission on Neighborhoods recommends that every state establish a State Commission on Urban and Neighborhood Policy to examine the role of the public, private and community sectors in the revitalization of their neighborhoods and cities, and to make appropriate recommendations.

VIII.

The Federal Government, through its various programs, is a major source of funds upon which to develop the capacity of neighborhoods to participate in a wide range of activities. The public sector can, through administrative regulations and programs design, make available significant resources for neighborhood and community organizations.

A.

Federal government funding for neighborhood-based community organizations and social service organizations continues to be essential to their capacity to develop and implement neighborhood-based strategies for physical and economic development, and human service delivery.

1. In order to guarantee the equitable distribution of financial resources to the neighborhoods with the greatest need, the National Commission on Neighborhoods endorses the HUD 75%–25% formula for targeting resources to low and moderate income neighborhoods and committees. It is recommended that this formula be expanded to programs in other agencies and departments.
2. Federal policy should clearly inform local city government that major legislative intent of federal programs such as block grants and CETA is to assist the neighborhood revitalization process. Where necessary legislative action should be taken to guarantee this intent; where the intent is part of the legislative history, it should be enforced.
3. Present CETA legislation contains a directive that community based organizations receive "Special Consideration" for Public Service Employment Projects. This directive should be extended to other CETA programs, and should be adopted for other discretionary programs as well.

4. The CETA "Special Consideration" provision should be strengthened to require set-asides for community development organizations and should be required for all discretionary programs impacting on neighborhoods.

5. Where local compliance is not forthcoming for set-aside provisions, the funds should be allocated directly to neighborhood organizations by the Federal government.

B.
Categorical Programs

Any categorical development program for whom the primary intended recipients are neighborhood organizations, such as Self-Help Development Funds, CSA Title VII Community Development Corporations, EDA Office of Special Projects, and others, must have greater flexibility to address particular needs as perceived at the neighborhood level.

C.
Economic Development Administration

1. The current EDA request for additional funds to permit awarding of neighborhood planning grants should be supported.

2. The Economic Development Strategy grant program should be expanded.

3. Regulations governing the awarding of Economic Development Strategy grants should be amended to limit 25% of total funding available the awards made to regional, national or umbrella technical assistance and training organizations. Seventy-five percent of all EDS grants should be made directly to locally based groups which could then determine which external assistance or expertise they wish to contract for.

D.
Department of Justice, Law Enforcement Assistance Administration, Anti-Crime Program.

1. The funding for Community Anti-Crime Grants should be extended from 12-18 to 12-36 months.

2. LEAA should establish a one-year Community Anti-Crime planning grant program to enable adequate planning by local groups as they prepare for involvement in the full program.

3. Application forms, the funding process, and reporting forms should be drastically reduced and simplified to enable more neighborhood groups to participate in the program.

4. Size of grants should be reduced to require a significant number in the $25,000 to $50,000 range instead of the 1978 average of $150,000.

5. Technical assistance contracts to assist neighborhood groups in developing Anti-Crime proposals should be awarded to local and regional organizations, not solely to Washington based "national" groups.

E.
ACTION/VISTA

1. The National Commission on Neighborhoods, recognizing the invaluable role that VISTA volunteers have played in building and maintaining strong neighborhood organizations, recommends that ACTION increase the overall number of VISTA volunteers available for this purpose. Recognizing furthermore the need for training and technical assistance to guarantee the effectiveness of these volunteers, we recommend increased funding of local, regional and national support organizations to provide this training.

2. The Urban Volunteer Corps/Good Neighbor Fund program proposed in 1978 should be reintroduced in Congress. The current ACTION concurrence method provides for a governor to approve or disapprove a project in his/her state within 45 days. If no action is taken, the project can proceed. This guarantees considerable independence for local groups, and we recommend the continued use of this process in the two new initiatives.

3. Considering the success of the LEAA Community Anti-Crime Program cited above, the National Commission on Neighborhoods supports the cooperative relationship worked out between ACTION and LEAA. Under White House leadership, ACTION's proposed "Mayor's Anti-Crime Program" was dropped in favor of ACTION's participation in the present LEAA program. The Commission does not favor any change in eligible grantees as a result of this agreement.

F.
Housing and Urban Development

1. The HUD Office of Neighborhood Development should be expanded and strengthened as a specific commitment by HUD to the principle of building the capacity of community organizations to address their own problems and become effective participants in the New Urban Partnership.

2. As part of this expansion of the Office of Neighborhood Development, their role as a clearinghouse should be supported and increased in the area of information dissemination for citizen groups, local officials and the private sector about the availability of resources, program models, training efforts and technical assistance.

3. Develop Technical Assistance as an ongoing line item in the HUD budget.

4. Through administrative initiative, encourage cross-cutting technical assistance efforts, particularly with EDA and HUD's Offices of Community Development and Neighborhoods.

5. Provision should be made for preproposal applications when complex plans are involved. A community group which thinks it is eligible for a particular award should be able to submit a preliminary and non-technical application. Upon review of this document, there should be small technical assistance awards available to help the organization further develop a complete proposal. Such awards could go either directly to the applying organization or to a conduit technical assistance provider.

IX.
The Role of the Private Sector

A primary source of funds for neighborhood and community-based organizations ought to be the vast network of private philanthropic corporate and individual giving that is an American tradition. While these sources provide a significant amount of support for community organizations, the level of this support is insignificant in comparison to the level of support provided traditional organizations.

A.
Solicitation of employees at the workplace should be opened up to all non-profit, tax-exempt organizations—at all levels of government and in private business.

B.
United Way policies which insist on a monopoly of workplace solicitation should be repealed, because they operate to exclude legitimate, deserving charitable and other non-profit organizations from receiving contributions from employees at their workplaces.

C.
Alternative fund raising federations at the local level should be organized. They should include a wide enough variety of organizations to be a moral, political and legal force which can be effective in pushing for open workplace solicitation and in promoting giving for alternative federation members.

D.
Federal tax incentives for charitable contributions should be expanded and eventually made equal for all taxpayers. The 77% of taxpayers who now use the standard deduction have no tax incentive to make contributions. Only taxpayers who itemize deductions do. All taxpayers should have the option of taking a tax credit for their contributions or of itemizing deductions. The higher the tax credit, the more equal tax incentives would be for all who make contributions.

E.
Foundations or endowed funds focusing on neighborhood revitalization should be created at the national level and in each metropolitan area. They should be patterned, perhaps, after the model of the National Heritage Foundation, which uses death benefits for individuals' insurance policies to build endowment.

F.
Programs for matching of employee gifts should be created in business corporations for the benefit of all non-profit, tax-exempt organizations which can receive tax deductible gifts. They should be patterned after successful corporate matching programs for education and the arts.

1. A Businesspersons Committee for Neighborhood Revitalization should be established with participation from chief executive officers of major U.S. corporations to promote more corporate attention to neighborhood issues, problems and funding needs. It should be patterned after the Businesspersons Committee for the Arts and the Council for Financial Aid to Education. The majority of the membership should be bona fide neighborhood interests.

2. Disclosure of basic information about all corporate contributions and other payments to non-profit organizations should be required by federal legislation.

G.
In Order to Obtain More Support From Foundation Sources:

1. Foundation policies for 1-3 year funding of neighborhood and other

grassroots groups should be replaced by policies which apply the logic used in providing long term funding for arts and cultural institutions, hospitals, colleges, and universities, etc.

2. Community foundations, which have favored treatment under Federal law compared to private foundations, should be required to have more direct involvement and communication with the public, including public annual reports, open meetings, and the like, so that neighborhood organizations can have greater impact on their funding priorities and procedures.
3. Quick release, small grants programs should be established in all medium and large foundations so as to provide for easier access by newer, smaller neighborhood organizations and for emergency needs of more established neighborhood groups.

H.
In Order to Obtain More Support From United Way:

1. Special funds for grants to non-member agencies should be reinstituted or continued in United Ways across the country. They are a more flexible means than formal membership application for newer, smaller, not necessarily permanent groups to benefit from United Way fundraising campaigns.
2. Special allocation committees for neighborhood organizations should be established in United Ways. These should act directly on funding requests for neighborhood organization staff and core budgets and advise regular allocation committees on funding requests for neighborhood service programs.
3. Local United Ways should be encouraged to open up membership on allocation committees and boards to representatives of grassroots and community organizations.
4. When access is denied to legitimate, deserving organizations, boycotts and other pressure should be applied, where appropriate, towards United Way fundraising campaigns as a means of communicating to them and to the public that United Way is only serving a part of the community's needs. This could include pressuring IRS to rescind a United Way's tax exemption.
5. The Commission recognizes and commends those United Ways across the country who are serving the needs of the neighborhoods. Among these, Providence and Boston have been brought to our attention, and should serve as models.

I.
Other Recommendations to Obtain More Support From All Private Sources:

1. Records on non-profit groups kept by Better Business Bureaus, local Chambers of Commerce, local United Ways, community foundations, and the National Information Bureau, among others, should be subjected to the same rigorous procedures for inspection and introduction of rebuttal material to which commercial credit ratings of individuals are now subject under law.
2. Local coalitions for philanthropic change should be organized by neighborhood organizations and other non-profit groups receiving little

funding from traditional institutions. The purposes of these committees should be to study the patterns of local philanthropy, to report on these patterns to local leaders, to negotiate new procedures for insuring greater access by groups without personal contacts within the philanthropies, to work on achieving all of the prior recommendations, and to report to the public through the mass media on the overall progress in how philanthropy is addressing the critical public needs of our times.

J.

The National Commission on Neighborhoods recommends that church and religious foundations continue to focus their activities on empowerment and institutional change projects, since they have taken a leading role in providing resources for initiating and maintaining community and neighborhood based organizing and development projects.

1. Because of their independence, churches and religious foundations have been the most flexible source of funds for community organizing and advocacy projects, and they are urged to do everything possible to increase the amount of resources available for such funding, and

2. to encourage their regional, district, diocesan and local affiliates, parishes, and congregations to continue to support community empowerment projects; and

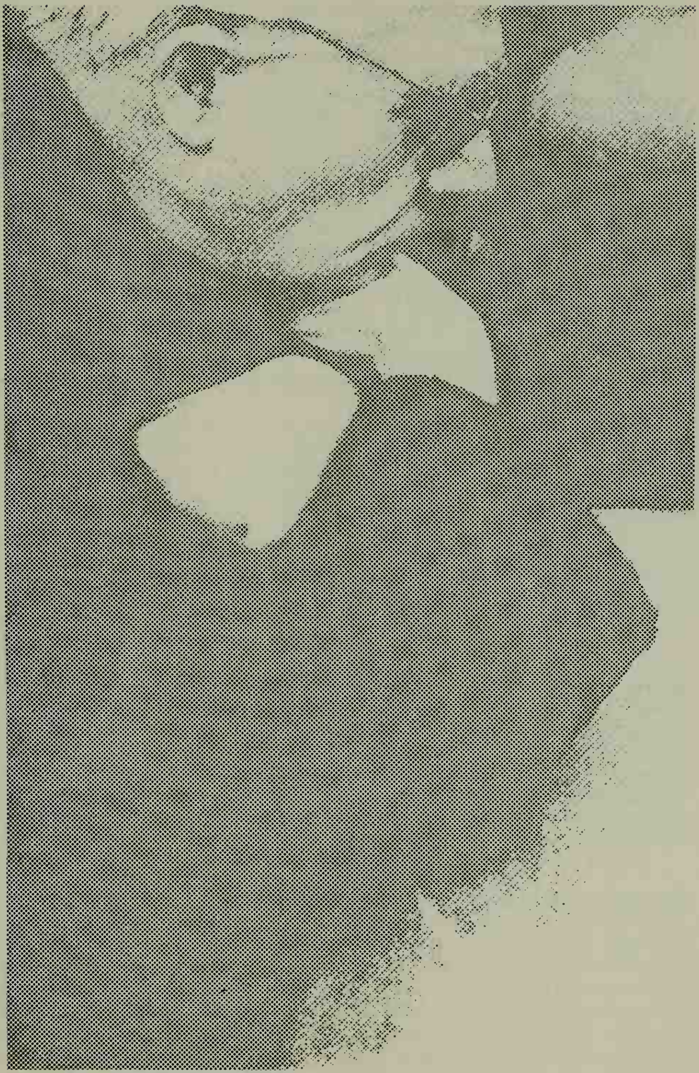
3. to strongly urge their local congregations and parishes to become actively involved in neighborhood and community organizations financially as well as through their members participation in such organizations and through the utilization of their churches and schools and other physical facilities for neighborhood groups.

4. to strongly urge that congregations and regional district and diocesan organizations utilize their endowment and capital resources as a source for neighborhood and community reinvestment.

K.

The National Commission on Neighborhoods advocates the establishment of a National Foundation for Neighborhoods, to fund neighborhood organizing, development and service delivery and training for these activities.

Neighborhood Reinvestment



Neighborhood Reinvestment

Introduction: There Is A Vacuum Of Neighborhood Economic Policy

The existence of a tightly dependent neighborhood economy has not been acknowledged in national policy approaches to reinvestment. Massive solutions have been imposed upon urban areas without the concomitant analysis of the influence of these strategies upon the economic forces at the local level. Whether the city is small or large, in the East, Midwest, or West, there are neighborhoods in our metropolitan areas that have been adversely affected by this omission in economic planning. Often they are the older neighborhoods of city and even suburban communities. More often, they are the areas where minorities are the primary or newer residents. Some of the neighborhoods have only recently entered this economic crunch. Others have suffered extended deprivation of credit, resulting in noticeable physical deterioration.

In assessing the economic crisis of neighborhoods we have seen that various myths about the value of neighborhoods have historically dictated real estate activities. Further, we have seen that the institutions involved in the investment process, including lenders, insurers, and other investment institutions, have reinforced these myths in their policies and performance. The further reinforcement of federal policies designed to support a misguided investment pattern are evident in the discussions of the Department of Housing and Urban Development and the various procedures and practices of financial institution regulators.

There has been a breakdown as our cities have grown. Neighborhoods that were once developed in the fashion of small, somewhat independent communities, with local employment, varying housing style, commercial business strips, local lending institutions, and other support systems, have been allowed to erode because of a vacuum of neighborhood economic policy.

This vacuum of policy has allowed such solutions as urban renewal. While the solution for the economic ills of small towns would never be to raze the town, planners, developers, and government officials have time after time given approval of *removing* neighborhoods as a cure for their ills.

Every neighborhood in which people live is a resource to our national economy and to our society. The approaches to reinvesting and/or rebuilding a neighborhood economy will vary. There is no one approach.

Finally, a neighborhood economic policy must have as its foundation the goal of developing policies that will directly benefit the existing lower income and minority residents of our nation's disinvested communities. Without such a focus, reinvestment dollars could "save" the neighborhoods by displacing the very people who have raised the issues.

The challenge that faces our country as we approach the 1980's is to develop a national neighborhood economic policy that is cognizant of local needs, but affirmative at the federal level that the needs of low and moderate income residents must also be a priority. The major conclusion of this task force report is that a holistic approach to the development of such a national neighborhood economic policy must be taken. The recommendations that are made at the end of this report are a package of legislative and regulatory changes that the Commission believes will take significant steps toward achieving this country's thirty-year old national goal of "a decent home and a suitable living environment for every American." To do less is to condemn America's neighborhoods to more years of existence in an economic vacuum.

The Views Which Have Shaped Government Attitudes Towards Neighborhoods Are Based On A Set Of Myths

Many planners and policymakers in the public sector and investors, lenders, and other members of the private sector have operated on the basis of at least three myths about the potentials and limitations of revitalizing our older, inner-city neighborhoods. Some aspects of these myths are in direct contradiction to non-discrimination laws, but are applied in practice anyway. Other elements of these myths undoubtedly do, or did at one time, rest on fact, although their overall validity is not supported with a sound body of current knowledge. In most bases, they have little or no basis in fact or empirical research. Instead, these myths are based on fragmented, dated, or poorly designed research. These myths create assumptions about decline which effect the distribution of economic resources essential to avoiding decline. In fact, these myths have led to the creation of a dual housing market.

Simply stated, the three myths are:

1. older neighborhoods, either through "natural forces" or the competition of the market place, invariably decline and move toward blight as they filter into the hands of poorer residents;

2. racial change is a precursor of decline; and,

3. mixed land uses or the introduction of commercial or industrial uses into residential areas indicate and contribute to decline. These three myths all stem from the same root and can be treated under a single discussion.

A. Filtering, Racial Change and Diversity

As part of the federal response to the Depression, the Federal Housing Administration (FHA) was created and given the job of developing a sound and uniform housing policy. FHA drew heavily on the human ecology model which was being developed at the University of Chicago.[1] When applied to human society, this model holds that groups of people "infiltrate" and "invade" territory held by others. Through a process of "competition," which is a kind of war of survival, the group most suited to the environment takes over completely. Neighborhoods and communities are seen not so much as conscious man-made environments, but rather as natural phenomena subject to the laws "of all nature."[2]

Neighborhoods have been identified as going through natural life cycles. They grow to a point of success, and then as the technology of the society develops and favors different locations, there is invasion and succession by lower class people. There are temporary plateaus of stability when the area is occupied by a homogeneous population or land use, analagous to a single species of plant taking over its most beneficial location. When the homogeneity is interrupted by the "invasion" of a different type of land use, property or class of persons, this starts the downward cycle.

Homer Hoyt, who was a professor of real estate at the University of Chicago, transferred these theories into real estate terms. In a study commissioned and published by FHA in 1939, Hoyt developed the filtering, or trickle-down model of neighborhood life cycles.[3] This theory was endorsed by the FHA and so became the foundation of federal housing and urban development policies. His theory holds that as individual properties and neighborhoods age, they filter down from higher income groups to poorer people until they become squalid slums.

In other works, Homer Hoyt and Frederick Babcock added to this theory of decline the notion that racial change contributes to neighborhood decline. Homer Hoyt produced a ranking of the ethnic groups based on impressionistic information about adverse effects on a neighborhood communicated by one local real estate broker. The ranking reads in descending order from those with the best to those with the worst impact:

1. English, German, Scotch, Irish, Scandinavian;
2. North Italians;
3. Bohemians or Czechs;
4. Poles;
5. Lithuanians;
6. Greeks;
7. Russians, Jews (lower class);
8. South Italians;
9. Negroes;
10. Mexicans.

Frederick Babcock examined the filtering models with these assumptions about the effects of racial change. He stated in one of the early classic texts of real estate principles:

> Most of the variations and differences between people are slight and value declines are, as a result, gradual. But there is one difference in people, namely race, which can result in a very rapid decline. Usually, such declines can be partially avoided by segregation and this device has always been in common usage in the south where white and Negro populations have been separated.[5]

The FHA hired Frederick Babcock to incorporate these models into its underwriting and real estate appraisal standards. These models became officially certified government policy and the basis of the principles used by the major appraisal and underwriting organizations. The Department of Housing and Urban Development was created in 1965 and took over the FHA. In 1975, the Department of Housing and Urban Development published *The Dynamics of Neighborhood Change*, which sets out five stages through which neighborhoods are presumed to pass.[6] It describes the process of decay in terms of these five stages; "healthy," "incipient decline," "clearly declining," "accelerated decline," and "abandoned."

A "healthy" neighborhood is described by a series of physical, social, and ethnic characteristics. One of those characteristics is "moderate to upper income levels," and another is, "ethnic homogeneity."[7] As a neighborhood moves into "incipient decline," it is seen as reaching a critical point, since spontaneous recovery from a later stage of decline is seen as extremely difficult.[8] Two of the characteristics which describe a move into the stage of "incipient decline" are listed as "aging housing stock" and "influx of middle income minorities." In the "clearly declining" stage, "decrease in white in-movers" and "more minority children in schools"[9] are listed as two characteristics. The document identifies the perception of racial change as a factor which might accelerate the process of decline.[10]

The 1975 Department of Housing and Urban Development study was actually designed to examine the historical evolution of only those selected neighborhoods which had decayed into abandonment. Since no economically sound communities are included in these studies, it would be astounding to find their models of neighborhood life cycles leading to anything but abandonment.

B. Empirical Studies of Neighborhood Change Refute Traditional Assumptions

While the existing empirical studies do not represent a sound body of knowledge, two analytical points can be extracted. First, *racial change,* in itself, *does not cause neighborhood decline.* Second, all of the factors which show up again and again as predicting risks (defaults and foreclosures on loans) have to do with the credit of the buyer. The individual *characteristics of the properties or the characteristics of the neighborhood do not show up across these studies as having any general value in predicting risks.*

Since myths seem to have a life of their own, separate from objective facts, we need to consider each myth separately and the empirical evidence against the continued growth of the myth.

1. The Alleged Need for Homogeneous Land Uses

The belief that neighborhoods must have homogeneous land use patterns or strictly segregated uses has almost no foundation in empirical research. The original enactment of zoning requirements in New York City was a political move to insure that the cheap tenements built for factory workers could not be located in the wealthier residential sections of the city. More and more the courts have rejected the notion that multi-family uses necessarily have a detrimental effect on lower density property values. However, investors who have accepted the filtering myth depend on indicators of mixed land use to decide when to disinvest. If indicators such as mixed land uses or economic change are not used, other indicators will be developed to perform the function of minimizing risk.

The most interesting and ironic sets of opinions seem to be held by planners and developers. Some point to the increasing use of the Planned Unit Development (PUD) in new development areas and in areas cleared of older structures. The essential ingredient of the PUD is the combining of several different types of land uses in a single development. In one major HUD evaluation of the economic and environmental impacts of different types of new development, the most beneficial mix of land uses appeared to replicate quite closely the types of mixes which exist in the older inner-city neighborhoods which some planners and developers claim are economically and functionally obsolete.[11]

2. Property Values and Race

An analysis of the major studies on property values and race reveals that in all but one of the studies, *property values either increased or remained about the same after racial change.*[12] The seven studies which considered the socio-economic status of incoming blacks indicated that blacks had a higher socio-economic status than the whites living in the area.[13] In the one study where prices did not rise after racial change, the author notes that values were declining prior to black entry.[14]

A study by geographer Brian Berry in racially changing areas of Chicago (after 1968), is the only study which indicates a drop in property values after racial change.[15] There are two problems with accepting the results of this study. First, a different study by the Chicago Urban League of many of the same areas reaches a different conclusion.[16] Second, the areas studied by both Brian Berry and the Urban League have been identified many times as areas suffering heavy disinvestment by conventional financial institutions. Community groups have argued that withdrawal of credit from a neighborhood causes property values to decline.

In a study of disinvestment in northwest Philadelphia, detailed records of property sales were recorded for one racially changing area and one white community. The data show that property values remained strongest in the racially changing area until conventional lenders ceased to be the major source of financing. After this point of disinvestment, property values in the white community grew more rapidly than those in the predominantly black community.[17]

3. Race and Neighborhood Conditions as Predictors of Risk

There are only a handful of major studies on the factors which predict risks of default and foreclosures on home loans. Most of these studies were done in the 1960s during a time of unusually high foreclosure rates and were generally limited to the Federal Housing Administration (FHA) or Veterans Administrations (VA) loans. They paid little attention to the factors which predict risks on conventional loans. Since 1970, several studies have been done. Most of these studies have serious methodological problems such as poor and biased samples; exclusion of several factors believed to be important in delinquency and foreclosures; lack of data on a neighborhood level; and lack of attention to explaining the causes of the statistical relationships presented.[18]

Generally, these studies indicate that delinquencies and defaults are related to the financial characteristics of the borrower and the conditions of the loan. Some individual studies suggested relationships between characteristics of the property and risks of default and foreclosure. However, the same property characteristics do not show up across different studies. There is no evidence of a *general* relationship between the characteristics of the property and lending risks.[19] There is also no generalizable evidence that neighborhood characteristics enhance risks. However, these studies are not conclusive, since they represent very limited and specific cases.

One of the three studies which suggest that neighborhood factors do influence delinquency and foreclosure rates was done by a government agency.[20] It covered only FHA Section 221(d) 2 and Section 235 loans and used zip codes as the basic unit of analysis. It did not consider the individual loan characteristics which previous studies had found to correlate with mortgage risk. While there were some correlations with neighborhood (actually zip code) characteristics, they were not strong and race was not one of these factors. Indeed, this study showed that the number of indictments for illegal use of federal housing programs was one of the most important predictors of foreclosure in the Section 221(d) 2 program.

George von Furstenberg and R. Jeffrey Green did a detailed study of neighborhood factors and mortgage risk in Pittsburgh. They did find some correlation between high percentage of black population and mortgage delinquency but concluded:

> Since the association with race is quite dispersed and since there are several characteristics other than race exerting a significant influence on delinquency rates, redlining of all areas with more than 25 percent of blacks would be entirely too crude. It would condemn all such areas to a single criterion of race, while they are in fact, diverse from the standpoint of mortgage quality.[21]

The study also found a relationship between the age of the mortgaged property and delinquency, but this was not consistent with an earlier, more extensive study which von Furstenberg did alone.[22] But the study which von Furstenberg and Green did together does not represent a sample of the general market because all of the loans were taken from the files of a single lender.

The most recent study which claims to investigate inner-city lending risks was done in 1977 for the U.S. League of Savings Associations by ex-Federal Reserve Board member Andrew Brimmer. The report relies heavily on the finding of the von Furstenberg and Green study on the relationship between the age of the property and delinquencies. The League's report ignores von Furstenberg's earlier study which found no such relationship even though the League's report summarizes the results of that study.

Even high foreclosure rates in an area do not indicate a declining neighborhood. A report in the early seventies on foreclosures of FHA loans in California found that almost a third of the foreclosures occurred because lenders had not followed proper guidelines in servicing the loans.[24] At a Department of Housing and Urban Development hearing, Steve Rohde, then of the California Business and Transportation Agency, commented about criteria a lender could use to justify redlining practices to that agency:

> A high rate of foreclosures, *per se*, would not qualify as evidence to document a probable decline in fair market value, because the foreclosures might have been due to the abnormal financial situation often associated with redlining, such as lending to speculators; or the foreclosures may be due to non-neighborhood factors.[25]

C. The Dual Housing Market

The underwriting policies of major actors in the real estate and finance industries have created a dual housing market. The impact of these activities is widespread racial discrimination and destabilization of neighborhoods. Most of the critiques of the dual housing market have focused on realtors and racial discrimination in the sale and rental of housing. Studies of disinvestment now indicate that a broad range of discriminatory activity is required for the existence of a dual finance market.

1. Realtors and Appraisers

Real estate brokers are the first point of contact for both home sellers and home buyers seeking information about the local housing market. Realtors transmit their beliefs about neighborhoods directly to buyers and sellers. Lenders, in their decision to loan or not to loan on a property, also transmit their beliefs about the property and the neighborhood directly to buyers and sellers, as well as to the realtors. Neither realtors nor lenders, however, consider themselves to be experts on what affects values and neighborhood dynamics and change. There is another set of professionals, real estate appraisers, who are considered the experts on these matters.

The first standard appraisal text, McMichael's Appraising Manual, came out in 1931. It advised appraisers to determine whether there were "undesirable racial elements" in the area.[26] The fourth edition, which was published three years after the U.S. Supreme Court struck down the use of racially restrictive covenants on real estate sales, praised and reproduced Homer Hoyt's ranking of ethnic groups, which most helped or hurt property values.[27] Finally, the text discussed how the "ingress" of certain ethnic groups precedes blight. This text was commonly used up through the 1960s, and just recently went out of print.

The first text of the American Institute of Real Estate Appraisers (AIREA), one of the two largest professional appraisal organizations, came out in 1935. The text warned appraisers of the adverse effects of the "infiltration of inharmonious racial groups."[28] Later texts and teaching materials of the AIREA and the other major appraisal organization, the Society of Real Estate Appraisers (SREA), elaborated on the themes of neighborhood decline and racial change. A 1967 AIREA text reads:

> The value levels in a residential neighborhood are influenced more by the social characteristics of its present and prospective occupants than by any other factor. Therefore, the appraiser must give major consideration to the importance of social data.
>
> The causes of racial and religious conflicts are not the appraiser's responsibility. However, he must recognize the fact that values change when people who are different from those presently occupying an area advance into and infiltrate a neighborhood.[29]

Teaching materials used in the mid-1970s by the AIREA read:

> As a general rule, minority groups are found at the bottom of the socio-economic ladder, and problems associated with minority group segments of the population can hinder community growth. Similar comments are appropriate for occupational types in a community.[30]
>
> One exceptional factor which may affect value is the influx of inharmonious social or racial groups.[31]

In a less explicit way, the general definition of a neighborhood as homogeneous and a basic appraisal concept called the "principle of conformity" also served to discriminate against socially or economically mixed neighborhoods.

The most recent text of the SREA discusses neighborhood life cycles similar to the stages of HUD's *Dynamics Of Neighborhood Change:*

"All neighborhoods exhibit a life cycle which varies only in the intensity and duration of each phase. The phases are:

1. Development and Growth. This is the period during which prices are increasing and the neighborhood is built up.

2. Stability. This period may last from approximately the 10th to 15th year of the life of the neighborhood, perhaps through its 40th year. This is generally the period of highest value and attractiveness of the neighborhood.

3. Transition and Decline. This occurs as the attractions of the neighborhood are offset by those of new, competitive areas. The properties become functionally obsolescent, as does the pattern of the neighborhood. New users begin to move in, and transition frequently results in lower values.

4. Renewal and Rehabilitation. In some instances, it is possible to renew and revive a neighborhood. Examples may be found in nearly every city: e.g., Old Town in Chicago, and Society Hill in Philadelphia.[32]"

When lenders are making decisions about a loan, they want to know more than the present value of a property. Lenders need to know that a property will not decline in value so rapidly that it is no longer worth as much as the outstanding value of the loan. Property underwriting is the process lenders use to decide if a property will maintain its value over the life of the loan. Until very recently, there has been no professional organization of mortgage underwriters. Lenders have simply taken real estate appraisal principles describing neighborhood trends, and used them as standards for property underwriting.

The formal underwriting standards which private lenders use have always been confidential, so there are few examples to look at. For years, the U.S.

League of Savings Associations, the largest professional organization of the savings and loan industry has taught its members how to use its recommended appraisal form, known as the "Green Hornet." One of the items on this form asked for the "ethnic composition" of the area to be checked off under categories indicating stable or unstable conditions.

A 1974 opinion of the Counsel of the Federal Home Loan Bank Board ruled that the use of racial data in appraisals was a violation of civil rights laws.[33] Nonetheless, the League's Appraisal Consultant continued to defend the use of that form in his column in the League's trade journal, *Savings and Loan News*. In one column he claimed that ethnic information was not discriminatory and represented part of a sound underwriting analysis, since it was an essential fact relating to changes in value. "Certainly," he said, "the ethnicity of an area reflects on its value trends."[34] In another column he wrote, "As a practical matter, the FHLBB's counsel's ruling has helped to identify a loan underwriting risk often overlooked by unsophisticated lenders. Now they know better."[35]

The "Green Hornet" form was changed to replace ethnic data with information on sales volume. The 1975 version of the League's text, *Lending Principles and Practices,* states that racial change, and even fear of racial change is identified with increased volume of sales.

In 1976, the Justice Department filed a suit against the American Institute of Real Estate Appraisers, the Society of Real Estate Appraisers, the U.S. League of Savings Associations and the American Mortgage Bankers Association.[36] The suit charged these organizations with practicing discriminatory techniques. The suit is still pending. However, the American Institute of Real Estate Appraisers has settled out of court. They agreed to remove all discriminatory language from their code of ethics and texts. They also agreed to mail copies of the settlement agreement as well as the revised texts and code of ethics to all of their members.[37]

2. Studies of the Dual Housing Market

In 1975, the National Training and Information Center (NTIC) and a researcher from the University of Chicago conducted a detailed study of the mortgage markets in five Chicago neighborhoods over the twenty-five year period of 1950 to 1974.[38] In four of the five neighborhoods there was racial change during this period. These neighborhoods are South Shore, Roseland, West Englewood, and Logan Square. In the fifth neighborhood, Jefferson Park, there was no racial change and it remained white. Using actual title transfer records, the study traced 500 properties in each neighborhood over the twenty-five year period. The percentages of conventional and FHA loans in these neighborhoods was calculated over the twenty-five year period.

In the case of Jefferson Park, conventional mortgages remained the primary source of credit throughout the study period. In each of the other neighborhoods, the market switched from conventional lending to FHA lending. Background work indicated that this change took place alongside the racial change to blacks in South Shore, Roseland and West Englewood, and Latinos in Logan Square.[39] In all four cases, just prior to racial change there were very few FHA mortgages. At the height of racial change, FHA lending accounted for more than 80 percent of the loans in two neighborhoods and more than 60 percent in the others.

In all cases, the incomes of the minority population were about equal to, or better than, the income of the departing white populations. Also, in all cases, the volume of sales increased radically as racial change took place. In each case, the rapid resegregation of the neighborhoods through a transfer from conventional to FHA lending took place just after 1965 when FHA began to change its underwriting standards.

In 1974, a coalition of community groups on the south side of Chicago used the FHA files of the HUD area office and recorded all the FHA mortgages made between 1968 and 1973 in one eighteen-square mile area which was undergoing racial change.[40] In this area, there were 12,794 FHA sales during this time. Five mortgage banking firms accounted for 54 percent of these sales. In many of the census tracts well over 80 percent of the single-family homes were sold through FHA-insured mortgages during this time. In one block of South Hermitage Avenue, which is in the community of West Englewood, there were thirty single family homes. Between 1970 and 1971, all of these homes were sold with FHA mortgages. Twenty of these mortgages were made through a special FHA high risk loan program.

These tremendous volumes of loans were generated by close cooperation between a small number of realtors and a select group of mortgage banking firms. The Urban Suburban Investment Study Group at Northwestern University conducted a survey of all the Chicago HUD office's FHA commitments (647 cases) to insure loans for a six week period in the spring of 1974.[41] The data allowed the group to identify where a person was moving from, the person's race, and the realtor and lender involved in the sale. Results showed that during this time, over 75 percent of all buyers were black or Latino. However, over 95 percent of the people buying in white suburbs were white while well over 90 percent of those buying in the city were minorities. Also over 90 percent of all moves in Chicago were from minority or racially changing areas to other minority or changing areas. The largest category was of blacks moving from minority areas into racially changing areas.

Eighty-four percent of these loans involved mortgage bankers. A few realtors accounted for about half the sales in racially changing areas. There were 25 real estate firms which had five or more sales in this period. These firmed account for 253 loans. One firm accounts for 20 percent of these loans. This firm did over 80 percent of its business with only one mortgage banker. Sixty-seven percent of these 253 sales were made by just 19 realtors who made a majority of their loans with a single mortgage company.[42] Thus, one can see the close ties between a small group of realtors and individual mortgage bankers.

The concentrations of these FHA loans generated by high volume realtors and mortgage bankers has had a major impact on these neighborhoods. Of the 12,794 loans made in the eighteen-square mile area studied by the coalition of community groups, there were 1,746 defaults by 1973.[43] About three-fourths of these resulted in foreclosures. Since HUD at the time required properties it received through foreclosure to be delivered vacant, many of these foreclosures became abandoned houses.

In West Englewood, a planning student from the University of Illinois at Chicago Circle walked down each street of two census tracts in 1976 and counted the abandoned homes.[44] In these two tracts, between 1968 and 1972 FHA loans had been used to sell over 85 percent of the single-family homes. In one tract, 47 homes were abandoned and another 14 units had been demolished for a 14 percent rate of demolition and abandonment on FHA homes. In the other tract, the demolition and abandonment rate was over 11 percent. On the block of South Hermitage where we noted that all the homes had been sold on FHA in a two-year period, there were six abandoned properties, or 20 percent of the total units.

This pattern is not unusual. In the South Shore community which was included in the NTIC study, a disinvestment analysis done for a local community development bank discovered that the overall foreclosure rate on FHA loans was 2.14 percent between 1970 and 1974. But the foreclosure rate on conventional loans was only 0.36 percent. Of the eight abandoned homes in the sample of 500 properties studied, seven were owned by HUD as the result of FHA foreclosures.[45] In the Roseland community, there were 800 abandoned HUD homes.

Different studies have found similar patterns in other cities. The potential for profits for realtors and mortgage bankers led to thousands of homes sold under fraudulent conditions.[46] Credit reports were falsified, and appraisal reports were rigged. Under one subsidized loan program which could be used for new construction, developers got heavily involved and sold thousands of homes in defective condition.

FHA scandals reached crisis proportions in the early 1970s. The insurance funds for some of the high risk and subsidized loan programs were not sufficient to meet all the claims and the government had to spend Treasury funds of about $2 billion to make up for the losses. Between 1969 and 1975, there were over 300,000 foreclosures. Up until 1965, FHA repaired the properties it acquired through foreclosures. However, they were so swamped with foreclosures that this practice was dropped. At one time, HUD had over 100,000 vacant or abandoned properties in its possession.

A small number of developers, lenders, appraisers, and HUD employees went to jail for their participation in fraudulent practices. Most of those involved in the dual housing market made considerable profits from the system. The federal government had to absorb considerable financial losses, but the real losses were suffered by the people in the neighborhoods devastated by the dual housing market. The well intentioned but poorly administered policies to serve the needs of minorities and residents of older neighborhoods were used to accelerate the very process of decline they were supposed to arrest. Minorities found their long awaited dream of homeownership turned into a nightmare of a dual housing market created by myths.

What Are The Lending Risks And What Is The Level Of Demand In Older, Lower Income Minority And Racially Changing Neighborhoods?

There is a great need for objective measures of risk and demand in assessing lending patterns and practices. The studies of race and neighborhood conditions as predictors of risk suggest that there is a dual financing market with some neighborhoods served by conventional lending and other neighborhoods having to rely on federal insurance programs or individual forms of financing. The traditional models of decline must be questioned, particularly when they exist in the guise of objective study. For example:

The New York State Banking Department commissioned George Benston, professor of Management at the University of Rochester, to do a study of mortgage markets and redlining in the state.[47] The study used a sample of detailed loan records from seven local lenders, including mortgage bankers and conventional lenders. The geographic focus of the study included areas in the city of Rochester that are largely black with moderate or lower-income families and the developing suburb of Henrietta where the population is almost entirely white and middle income. The research reveals that 75 percent of the loans in the suburb are conventional while 75 percent of the loans in the city areas are FHA or VA. Another finding is that buyers in the city made higher downpayments and had mortgages with shorter terms than homebuyers in the suburbs. This profile apparently represents a classic case of conventional redlining. But the authors concluded that there was no evidence of redlining.

The techniques used to arrive at this conclusion show that the traditional myths of decline are deeply rooted. The authors explain virtually all of the differences in lending terms (and by implication the differences in levels of conventional and insured lending), by the lower incomes of the city residents, the greater age of the housing stock, and the social and economic profiles of the areas. The authors conclude there can be no redlining since these factors are assumed to be valid indicators of risk. No evidence is presented to support these assumptions. One part of the report which shows that city homebuyers pay a smaller share of their income for housing expenses than do suburban buyers does not support other aspects of the report.

The scholars hired to make an objective assessment of lending patterns assumed the answer to the question they were supposed to explore. In the introductory sections of the report, the authors present age of properties, the income of homebuyers, and certain neighborhood characteristics as unquestionable indicators of risk, needing no verification or testing. If one blindly accepts the traditional myths of decline, then even objective data showing a dual market will not indicate redlining.

A. Questions of Risk

There are many examples of lenders maintaining high lending levels in inner-city neighborhoods without suffering more losses than lenders preferring suburban loans. This kind of de-mything experience was reported in 1974 at the first HUD hearing on redlining held in Hartford, Connecticut. Robert Ghaizda, then a public interest lawyer, presented a study which showed how the largest savings and loan association in California had avoided the Mission District of San Francisco.[48] Then he reported the experience of a two-year old, minority-owned institution, which made 88 percent of its loans to this area without a single delinquency. In 1976, at a HUD hearing on redlining in Philadelphia, a similar experience was related by the Washington, D. C. Residential Mortgage Investment Commission.[49] The example was presented of the minority-owned Independent Federal Savings and Loan Association making 89 percent of its loans in the District of Columbia without a single default.

The success story of the Philadelphia Mortgage Plan (PMP) involving several major commercial banks and mutual savings banks is important for at least three reasons.[50] First, the plan was created as a result of pressure from community groups to reinvest in older Philadelphia neighborhoods. The three sponsoring institutions consciously rejected the traditional underwriting standards which had damaged the conventional loan market of the neighborhoods. In this plan, consideration of physical factors was limited to the condition of the individual subject property and the properties in the immediate vicinity. The major qualification criteria were: 1) sound physical condition of the property; and 2) vacancy and abandonment rates for the area were not more than ten percent. If the vacancy rate was higher and there were redevelopment programs in the neighborhood, sound property could still qualify for a loan.

Second, the program was designed to serve low-income people. Private mortgage insurance was available to facilitate lower downpayment requirements on conventional loans. The PMP also set up an extensive counseling program which included Spanish-speaking counselors. Third, the program was designed to make loans on very old buildings. Many of the properties are well over one hundred years old.

The most recent information on the PMP shows that the thirteen lenders who have joined the Plan made 4,167 loans with a default and foreclosure rate comparable to that of their suburban portfolios.

In general, special urban lending programs have been successful. In May of 1978, the National Commission on Neighborhoods held an issue forum on the practices of private lenders. At this two-day forum, representatives of several major urban lending programs made presentations. A representative of VEREX, the second largest private mortgage insurance company, compared the loss experience of its suburban loans to that of the loans purchased from special urban lending programs. He noted that the actual delinquency rate for the PMP was 1.2 percent, while the rate for the total portfolio also was 1.2%.[51] These data sparked off a kind of testimonial, with lenders from institutions all across the country commenting on how their own loss records from urban loans were often better than on suburban loans. A lender from Baltimore concluded that "all these years we have been wrong. We had things all backwards."[52]

Urban lending programs have played an important role in changing attitudes about the risks involved in inner-city lending. However, caution must be exercised so that they do not become detrimental to the community. A program which has shown that lending can be done without unusual risk should be phased out and the special policies should become *normal* lending practices. At the issues forum, a representative of the Federal Home Loan Mortgage Corporation addressed this point, explaining that there is some reluctance in buying loans designated as part of a special program, because of difficulty in selling them to other investors who are put off by the loan's special designation. This representative suggested that if lenders would *drop the special program designation,* there would be no problem with these loans being accepted in the normal market. Some participants in the issue forum also noted that counseling programs only serve to provide the lender with the normal assurance that the borrower clearly understands the nature of the lending agreement. Such an obvious and necessary process hardly seems extraordinary.

B. Questions of Demand

Lenders have often responded to studies showing low levels of conventional lending by claiming that there is no demand for loans in such areas.[53] As a practical matter, financial institutions make efforts to secure deposits or make loans. They do not wait to serve an existing demand because they know they can create demand through effective marketing. One text on banking defines marketing as "the creation and delivery of consumer-satisfying products (goods and services) at a profit to the bank."[54] The text goes on to say, "too narrow a conception of what products they can provide has been a major shortcoming of most banks."[55]

Marketing can be divided into two phases. The first phase might be called "product development." In this phase, new credit products are designed to meet the needs of certain target populations while maintaining or increasing the internal rate of return for the institution and meeting the institution's chartered service obligations. This product development stage may also include testing.

The second phase of marketing involves informing the target populations of the characteristics and benefits of the program, and how it meets their particular needs for housing credit.

Marketing of mortgage programs would include general advertising, as well as direct contact with realtors because of their central role in the loan seeking process. For homebuyers seeking home improvement loans, a marketing program to reach those persons who are already homeowners would be needed.

Financial institutions have devised a wide range of advertising techniques to increase deposits. These include marketing not only basic savings and checking accounts, but such variations as Negotiable Order Withdrawal (NOW) accounts, overdraft protection programs, "free" checking accounts, no-minimum-balance accounts, combined savings and checking services, specialized savings programs ranging from Christmas clubs to different savings certificates or "bonds," gift (premium) programs, retirement accounts, and automatic bill payment or automatic deposit of payroll and Social Security checks. The importance of this marketing activity is evidenced by its volume.

Home lending generally consists of two forms of loans: long-term mortgage loans and short-term lending, usually used for home improvements. The active demand for these loans can be expressed as the total number of persons seeking such loans. This would include all those applying and/or receiving loans. Active demand also includes those persons who have bypassed conventional single-family credit to actively seek insured government credit either by their own initiative or on realtors' recommendations.

Active demand for government-insured loans, however, can also be considered latent demand for conventional loans. Latent demand for single-family credit includes those persons who might be able to use home improvement loans or mortgage loans, but for some reason are not actively seeking such loans.

In general, latent demand for conventional lending is evidenced by special forms of insurance or risk reduction techniques such as increased interest rates and shorter term or increased downpayments, employed in an area for individual borrowers or properties. Conventional lenders are missing valuable opportunities for lending which would not involve much marketing effort. In addition to reaching this latent demand with existing loan programs, the marketing of new loan programs can activate other forms of latent demand.

The transformation of latent demand into active demand requires that potential borrowers be well informed about new loan programs and eligibility requirements. In mortgage lending, realtors play a pivotal role in linking potential borrowers with lenders.

The experience of the Marquette Park community in Chicago presents an example of the impact of realtor's activity. Concern among black and white residents over the wholesale use of FHA-insured loans and the rapid resegregation of the area had reached violent confrontation by the spring of 1976. A federal suit filed against HUD charged illegal practices by FHA-approved lenders. In response, the Department of Housing and Urban Development instituted a special pre-purchase counseling program. The program required potential FHA homebuyers in the Marquette Park area to receive counseling about the opportunities to locate a home in other equally desirable areas and the option of securing conventional financing in Marquette Park. The responsibility for referring homeseekers to HUD fell to realtors since counseling had to take place prior to a person's being shown any homes.

The Leadership Council for Metropolitan Open Communities, a local fair housing organization, carried out extensive testing of realtors and monitoring of real estate transactions in the community both before and after HUD's program. Their records prior to HUD's programs show that during the peak period of transaction, June 1975 to September 1976, conventional sales accounted for only fourteen percent of all transactions with FHA and VA loans accounting for the balance. The counseling program was initiated on May 23, 1977, and the monitoring for June and July, 1977 showed that seventy percent of those purchasing homes in the area used conventional financing.[56] There were *no* new applications for FHA loans after the program began. The other thirty percent of the transactions not financed with conventional funds used VA financing.

This data suggests that there was a substantial latent demand for conventional lending. Testing of realtors before and after HUD's program showed that while realtors almost uniformly steered homebuyers to FHA and VA loans before the program, not one realtor suggested the use of FHA loans after the program began. Realtors generally pointed out that there was "plenty" of conventional money available.

What Responsibility Do Investors Have To Serve Local Needs?

Private financial institutions share a universal history of policies based on the myths of filtering and cycles of decline with special emphasis on the myth that racial change accelerates decline. These policies are implemented through a dual housing finance market which has the effect of disinvestment and redlining of certain neighborhoods. Discrimination may be against neighborhoods populated by minorities or lower-income households or against older neighborhoods.

With regards to both anti-discrimination and anti-redlining laws, financial institutions should take affirmative action to remedy the harm caused by their past practices. These institutions have an obligation to meet the credit needs of all people in the areas where they operate. The obligation is affirmed in the legislation which created the financial institutions, in the delineation of service areas as a precondition of chartering, and in Civil Rights laws.

Federal agencies regulate nearly all financial institutions. Banks and savings and loan associations which are state-chartered are typically insured and thus regulated by federal agencies. Mortgage bankers who deal in FHA mortgage are regulated by HUD. The most active institutions in the secondary mortgage market are depository institutions chartered or insured by federal agencies, or are "government franchise operations" such as the Federal National Mortgage Association (FNMA), the Government National Mortgage Association (GNMA), and the Federal Home Loan Mortgage Corporation. The federal government is in a strategic position to influence the policies of these institutions.

Citizens, civil rights organizations, and community groups have taken initiatives against discriminatory policies and practices. This has entailed a broad range of activities including: organizing and public hearings, research analysis and advocacy of legislation, and legal action against financial institutions and public regulatory bodies. A brief chronicle of these initiatives and their results will show some progress. However, it must be emphasized that more needs to be done by investors to serve local needs.

A. Responsibility to Serve Minorities

Disinvestment has been a method of racial discrimination and the exploitation of racial change. The Fair Housing legislation, Title VIII of the Civil Rights Act of 1968, committed the federal government to take affirmative steps against discriminatory practices.

Major civil rights organizations, the Justice Department, and the first Secretary of HUD, Robert Weaver, called upon the federal lending regulators to implement Title VIII. Four years later, the Federal Home Loan Bank Board (FHLBB) adopted regulations which expanded types of discrimination prohibited in granting loans. Neighborhood characteristics were not listed as discriminatory considerations and a proposed racial category in record-keeping was not approved. There were no substantive affirmative steps taken to elimninate discrimination in lending.

The civil rights organizations, the Justice Department, and HUD developed a survey of lending institutions which was administered in 1971 by HUD.[57] The questionnaire was sent to federally regulated depository institutions. There was an 87 percent response rate. In its preliminary analysis of lending institutions, HUD focused on 50 cities with the largest minority populations. It was found that almost a thousand institutions (18 percent) openly admitted discrimination against areas of minority concentration.

Disclosure of information on local lending patterns received increasing attention from community groups concerned about redlining. Initially, community groups seemed caught in a Catch-22 situation. Lenders would not disclose their lending patterns. Regulators would not force them to disclose. Legislators would not pass legislation requiring disclosure unless community groups could prove that redlining actually existed. Public disclosure of lending patterns became the central issue in the building of the national coalition of community organizations involved in reinvestment efforts.

In Illinois, community groups pressured the Federal Home Loan Bank Board (FHLBB) to require disclosure of the savings and loan association which it regulated. Protracted negotiations produced only a pilot voluntary disclosure of loans and deposits by zip code. This was accomplished by the FHLBB agreeing not to produce data on individual lenders and not to divulge which lenders had voluntarily disclosed.

The FHLBB was under pressure from both civil rights organizations and community groups fighting redlining. In response, regulations were issued in 1973 which prohibited consideration of some neighborhood factors in lending. The following language was used:

> The use of lending standards which have no economic basis and which are discriminatory in effect is a violation of law even in the absence of an actual intent to discriminate. However, a standard which has a discriminatory effect is not necessarily improper if its use achieves a sound business purpose which cannot be achieved by means which are not discriminatory in effect or less discriminatory in effect.
>
> Refusal to lend in a particular area solely because of the age of the homes or the income level in a neighborhood may be discriminatory in effect since minority group persons are more likely to purchase used housing and to live in low-income neighborhoods. The racial composition of the neighborhood where the loan is to be made is always an improper underwriting consideration.[58]

Community groups increased their pressure for state and local disclosure laws. The first disclosure requirement was passed in Chicago in 1974. A city ordinance required commercial banks seeking deposits of city funds to disclose, by census tract, both their loans and their deposits. A short time later, Illinois passed the first state disclosure law, as a result of community pressure and the recommendations of the Governor's Commission on Mortgage Practices.

By this time, disclosure had become a national issue. Senator William Proxmire drafted the Home Mortgage Disclosure Act of 1975. In hearings on the bill, community groups from across the country testified on the problems of redlining and need for public disclosure. Major studies of lending patterns were submitted by groups from Chicago, Baltimore, Philadelphia, Washington, D.C., New York, Cincinnati, Milwaukee, Oakland, Los Angeles, and Indianapolis. On December 31, 1975, President Ford signed the bill into law.

In 1976, civil rights and fair housing organizations went to federal court and sued the Federal Reserve Board, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board for failing to develop regulations to implement their obligations under Title VIII of the Civil Rights Act of 1968.[59] The frustration which prompted this action was expressed by Senator William Proxmire in a dialogue with Richard Platt of the FHLBB at oversight hearings on civil rights enforcement efforts. Senator Proxmire questioned why the FHLBB had not developed racial recordkeeping mechanisms:

> Mr. Platt. I'm not trying to be defensive on this. I do think this is an area which is very important. I do think, however, that it's an area [recordkeeping] that has to be approached very carefully... when these kinds of things are done in this area they have to be done with a very even hand and it seems to me that moving in too quickly could cause...
> The Chairman. Too quickly? If this were a law that was passed eight days ago or eight weeks ago, I'd understand it; but eight years is a long, long time.[60]

Since 1976, the federal regulatory agencies have slowly developed more extensive non-discrimination regulations and surveys. Regulations which took effect in March 1977 implementing amendments to the Equal Credit Opportunity Act require racial data collection on loan applications. However, this information is not publicly disclosed.

In 1977, all the federal regulatory agencies except the Federal Reserve Board reached settlements out of court with the civil rights and fair housing organizations. These agreements committed these agencies to establish a computerized data collection and analysis system to help detect discriminatory lending practices. But there are no plans to publicly disclose each instititution's lending pattern.

Illinois passed an anti-redlining law in 1975. It specifically prohibited institutions from denying loans or varying the terms on loans because of the geographic location of the property. There are now similar laws or regulations in several other states.

In 1978, the Federal Home Loan Bank Board adopted anti-redlining regulations which prohibit discrimination based on the age or location of the dwelling. While these regulations are a significant step forward, they only apply to savings and loan associations.

In 1977, Senator William Proxmire introduced the Community Reinvestment Act. In the preamble to this bill, the Senator stated that there seemed to be some doubt in the minds of lenders and regulators about their obligations to serve local credit needs, so this bill was drafted to make that obligation absolutely clear. The Community Reinvestment Act was passed, and became Title VIII of the Housing and Community Development Act of 1977.

B. Responsibility for Neighborhood Lending

The Home Mortgage Disclosure Act and the Community Reinvestment Act are expressions of public policy. Adequate means of implementing the policy are required. The following discussion will clarify the perspective of community groups on what is needed to facilitate implementation of reinvestment policy.

1. The Home Mortgage Disclosure Act

The passage of federal disclosure legislation was not the end of disclosure efforts.[61] There are now five city ordinances requiring disclosure by institutions seeking deposit on public funds. There are seven state disclosure laws or regulations. Most of the city ordinances require deposit data. Several disclosure requirements include data on interest rates, downpayments, construction loans and applications. Two states' regulations require data on a lender's entire portfolio. Requirements in California include data on the age of the property and selling price. Both California and New Jersey require data on an individual loan-by-loan basis. California requires data on the borrower's characteristics and income. Several disclosure regulations require collection of the data at a central location, and some provide a public analysis of the data. Only in three states do disclosure requirements apply to mortgage bankers. The disclosure experience in California indicates that considerable time and expense could be saved for *both* community groups and lenders if data were collected on a loan-by-loan basis and analyzed at a central agency. State and local disclosure laws and regulations cannot fully replace stronger federal disclosure since the courts have consistently ruled that state regulations may not be imposed on federally-chartered institutions.

Advocates of disclosure have defined a range of lending information which relates to disinvestment issues. Because redlining and disinvestment in their more subtle forms include varying the terms and conditions of a loan, it has been suggested that disclosure should include information about interest rates, downpayments, and terms. It has also been argued that to test for discrimination, information about the age, sex, and race of applicants, as well as income, and some characteristics of the property should be disclosed.

A lender's entire portfolio of loans must be examined to determine the lender's true role in the local market. This can only be achieved by requiring data on loans purchased as well as loans originated.

There has been general agreement that disclosure should include FHA, VA, and conventional single-family mortgages as well as home improvement loans. In most cases, disclosure is also expanded to multi-family mortgages. Some citizens groups and local governments have advocated a separate category for loans under special state and local programs. There is growing pressure for disclosure of other types of loans, including construction, small business, general commercial and even consumer loans. This is needed to establish the service areas of lenders and to estimate the extent to which lenders meet the needs of people living in their economic base areas.

Considerable effort has been made to include disclosure of the deposit base, broken down by types of deposits. Disclosure of data on individual loans, coded by census tract and without other personal identification would provide information for a more thorough analysis.

It has been a common practice for community groups with limited resources to work together to analyze disclosure data, or to seek out technical assistance from local agencies or educational institutions. Because it has been difficult to collect individual Home Mortgage Disclosure Act

(HMDA) reports from lenders and because these reports often contain many errors requiring correction before the data could be used, one organization often serves as a clearinghouse, collecting and clarifying the data for use by several other organizations.

Disclosure data is often used as a basis for designing reinvestment programs. Disclosure data has been used in a wide range of reinvestment programs including: applications of institutions which are suspected of not serving the needs of their service areas; making decisions about where to deposit public funds; and locating Neighborhood Housing Services programs. Once programs are set up, disclosure data becomes a key for monitoring their impacts.

By the end of 1977, there were at least 116 organizations and institutions which had used some form of disclosure or lending data as part of a reinvestment strategy. HMDA data were used in the large majority of these cases. In many cases, groups used data from more than one form of disclosure, or chose to use more detailed data from real estate directories or title records.

At least one organization had used disclosure data for a reinvestment program in 42 of the 50 largest metropolitan areas. Disclosure data has been used in 66 different cities.

Despite the wide use of disclosure data, the most critical drawback of HMDA is that it does ot apply to mortgage bankers who represent a large portion of the market in innercity areas. Furthermore, disclosure requirements do not apply to life insurance companies, pension funds, or members of the secondary mortgage market, such as the Federal National Mortgage Association (FNMA).

The Home Mortgage Disclosure Act requires individual lenders to provide the public with statements of the aggregate numbers and dollar amounts of FHA and VA mortgages, conventional and multi-family mortgages, and home improvement loans—by census tract. Separate tabulations are required for loans originated and loans purchased. Only depository institutions with assets of more than $10 million must comply. Thus, HMDA does not cover small lenders. A final drawback is that disclosure applies only to loans originated or purchased within the last year.

2. The Community Reinvestment Act

It has been the position of the National Commission on Neighborhoods that the Community Reinvestment Act regulations are far too general to give specific guidance either to lenders or regulators.[62] The regulations do not specifically prohibit geographic discrimination. They do not specify how a lender should determine its service area or how it should determine the credit needs of the community it serves. They do not offer guidance as to the types of loans which are considered most valuable. The regulations do not require any affirmative actions on the part of the lender to work with the community.

The regulations do not require citizen input to the CRA statement and do not provide resources for community groups to respond to CRA statements or to gather and collect materials to be used in submitting a CRA challenge to a branch, merger, or other facility requested by the lender. The regulations do not define any formal role for community residents and groups served by a lender to participate in the review of applications for new facilities. The regulations do not require regulators to disclose their CRA examination findings. Finally, while the regulations state that poor performance on meeting local credit needs can be used as a condition to deny an application for a facility, they do not require any minimal level of performance as a condition of approval. In the case of CRA examinations outside the applications for facilities, there is no prescribed penalty for poor performance.

On November 22, 1978, the federal financial institution regulators announced public CRA examination procedures.[63] While these do not make up for the lack of stronger regulations, they are more encouraging. They detail measures which examiners can or should take to verify the claims of an institution and to seek out opinion from the community. The procedures indicate that examiners should assume that a community is better served when the lender has established communication with the community members. The procedures elaborate on how examiners can be sure that the defined service area is reasonable and how they can secure information to define low and moderate income areas. The procedures recommend steps the examiner can take to see that the lender has developed appropriate marketing programs to serve local needs, especially those of lower income persons.

Although the CRA does not require the collection or publication of any specific data, the examining procedures define sources of information on lending patterns, including the home Mortgage Disclosure Act, which examiners should use.

Taken as a whole, the examination procedures are more in line with the steps which the National Commission on Neighborhoods feels should be written directly into the regulations.

D. The Special Role of the Federal Reserve Board

Throughout the attempts to get the regulators to develop affirmative steps to implement their obligation under Title VIII and CRA, the Federal Reserve Board has consistently been the most intransigent agency. The Federal Reserve Board is the only regulatory agency which did not reach a settlement in the lawsuit by civil rights and fair housing groups.

The Federal Reserve Board, like the other regulators, has opposed both the Home Mortgage Disclosure Act and the Community Reinvestment Act. Many of the limitations in the content and form of the Home Mortgage Disclosure Act data are attributable to the Federal Reserve, which was charged with developing implementation regulations. It became clear to the National Commission on Neighborhoods at the issue forum on private lenders held in May of 1978, that some of the regulators were willing to adopt much more comprehensive CRA regulations, but the Federal Reserve Board was not. The White House required a uniform CRA policy, so the final regulations represented the least common denominator—the position acceptable to the Federal Reserve Board. The intransigence of the Federal Reserve is a major obstacle to reversing disinvestment.

The Federal Reserve is in a pivotal position because it regulates bank holding companies. Most of the major banks in America are actually subsidiaries of bank holding companies. These holding companies may own other banks and they often own real estate companies, other types of credit agencies, and mortgage banking companies. In fact, while commercial banks invest little in conventional loans in older neighborhoods, more than 40 of the 100 largest mortgage banking firms are subsidiaries of bank holding companies.[64] Thus, while commercial banks are often cited for conventional loan disinvestment, they frequently own the mortgage banking companies which have innundated innercity neighborhoods with FHA and VA loans. Only the Federal Reserve can regulate the bank holding companies to impact the role which mortgage banking firms play in urban disinvestment.

How Have the Policies of the Major Financial and Non-Financial Institutions Affected Investment Patterns?

Commercial banks, mutual savings banks, savings and loan associations, mortgage bankers, pension funds, property insurance companies, the secondary market, mortgage insurers, and government agencies like HUD—all influence the flow of credit and capital. These institutions share an almost universal history of policies, ideologies, and doctrines based on models of neighborhood life cycles, with a special emphasis on the assumption that racial change accelerates decline.

A. Commercial Banks

Commercial banks are designed to provide financial services to businesses and to meet the demand for consumer credit. There are almost 15,000 commercial banks. At the end of 1977, the total domestic assets of all commercial banks were $1,177 billion. However, commercial banks' assets are heavily concentrated with the twenty largest banks holding over 36 percent of the assets of all commercial banks in the country.[65]

Some commercial banks, particularly larger institutions, belong to the Federal Reserve System. This brings them special services and the opportunity to borrow from Federal Reserve Banks at preferred rates. In return for these services, the Federal Reserve Board regulates member institutions.

Commercial lending does not operate the same way as home lending. In home lending, people simply apply for a loan and wait for a decision. There is little, if any, interaction or negotiation between the lender and the applicant. In commercial lending, banks develop ongoing relationships with businesses. They do not always wait for a formal application, but may help them estimate their future financial needs and set up plans to insure that they will be able to meet those needs. Effective commercial lending depends upon banks soliciting business and developing hand-tailored programs to meet individual needs.

As our economy has moved from an industrial economy to a consumer economy, commercial banks have increased their role in providing deposit services and credit to individual consumers. A primary advantage for consumers is the ability of commercial banks to offer checking and savings account services at the same institution. Congress has responded to this competitive edge by allowing savings banks and savings and loan associations to pay slightly higher interest rates on savings accounts and certificates of deposit.

Regulations limit bank ownership of equity in nonfinancial corporations but do not prohibit banks from holding such equity in trust for others. Banks, of course, finance business directly through commercial and industrial loans. At the end of 1977, $207.3 billion or 17.6 percent of total bank assets were in such loans.[66]

Commercial banks are the backbone of the construction industry, holding $21.4 billion in construction loans at the end of 1977 (nearly two percent of their assets). Commercial banks place a smaller portion of their assets in home mortgages than other lenders (8.2 percent at the end of 1977). But because of their large assets, they will represent an imposing share, about 15 percent, of the total home mortgage market. In addition, they had 15.2 percent of their assets ($179.0 billion) in real estate mortgages in general, $97 billion of which was home mortgages.[67]

On the consumer side, commercial banks had 12.0 percent of their assets in personal and consumer loans. About 13 percent of these kind of loans represent extension of credit through bank credit cards.[68]

While the commercial banks are the main supplier of capital and credit for the national economy, their role may be even more critical for the neighborhood economy. Large national and international corporations can sell their own bonds and securities in order to raise needed capital. But neighborhood businesses must depend directly on credit from commercial banks. Moreover, these local businesses depend upon close working relationships with one or more commercial banks to develop their full potential.

Finally, commercial banks could well play a larger role in local single-family, multi-family and commercial mortgage lending. The deposit base of individual savings accounts and certificates of deposits which commercial banks have competed so hard to attract represents the type of long-term deposits which savings banks and savings and loans invest in mortgages. Indeed, many of these deposits which would have gone into mortgages, are attracted to commercial banks. However, commercial banks invest far fewer of these long-term deposits in mortgages. In 1977, commercial banks had more money in regular savings accounts than savings and loan associations and mutual savings banks combined. Yet if we examine mortgage investment as a percentage of individual savings accounts, we can see that commercial banks return a much smaller relative investment in home mortgages. We have left out certificates of deposit because many of these accounts in commercial banks are held by corporate customers. Savings and loans and mutual savings banks made home mortgage loans equal to 170 percent of their regular savings account base. This is almost double their base. (Savings and loans also make home loans against certificates of deposit.) In contrast, commercial banks made home mortgages equal to only 44.5 percent of their regular savings account base.[69]

B. Savings and Loan Associations

The Federal Home Loan Bank Act of 1932 created federal savings and loan associations. The creation of the Federal Home Loan Bank Board was to provide money for the housing market which had collapsed in the Depression. The House report which accompanied the Act reads in part:

> The investment in the homes of the country is a significant and imposing portion of our national wealth. Much of the decline in values of residential real estate has been due to the lack of credit.... Foreclosures and inability to borrow on homes create distress conditions and low prices in homes.... The existence of a home loan bank system will in the future prevent the recurrence of present conditions.[70]

Aside from federal savings and loan associations, there are also state chartered savings and loan associations. In some states, such as California, these state institutions are much larger than the federal ones. The main difference between state and federally chartered institutions is that state chartered institutions are often privately owned while federal laws have required all but a few federal savings and loans to be mutual institutions owned by the depositors. Usually, account holders and borrowers in these federal institutions have one vote for each account or loan.

In 1934, Congress created the Federal Savings and Loan Insurance Corporation (FSLIC) which insured the accounts in all federal and most state-chartered savings and loan associations. The FSLIC is an arm of the Federal Home Loan Bank Board. All savings and loan associations which are FSLIC-insured are also regulated by the FSLIC. Almost all savings and loan associations are federally regulated.

In order to insure that savings and loan associations could provide a constant source of funds for home financing, Congress established a law which allows savings and loan associations to pay slightly higher interest rates on savings accounts and other depository institutions. In addition, regulations severely limit the proportion of funds which savings and loan associations can put in investments other than one-to-four-unit homes.

At the national level, these measures have worked very well. Savings and loan associations hold nearly half the home mortgages in the United States. In 1977, they originated 55 percent of all home mortgages by dollar volume.[71] Insured savings and loan associations have $450 billion in assets. Sixty-five percent of these assets are in home mortgages, seven percent in multi-family mortgages. Less than two percent are in home improvement and other consumer loans.

Recently, savings and loan associations have pushed for legislation allowing them to provide some form of checking accounts. Since 1975, some savings and loan associations have been permitted to offer accounts which earn interest, like savings accounts, but which can be used to pay a third party, like a checking account. The most common are called negotiable order of withdrawal (NOW) accounts.

Because NOW accounts are not as stable and do not represent long-term deposits, there has also been pressure from the savings and loan industry for permission to make more short-term, higher rate of return loans and investments. In general, savings and loan associations are seeking to compete more directly with commercial banks, and the banking lobbies are opposing such moves. If savings and loan associations expand their checking account type deposits and are allowed to move into shorter-term, higher-yield loans and investments, this could further reduce the pool of funds in the general mortgage market. Presently, savings and loan associations control half of the mortgage market in the United States. Their participation in a neighborhood's local housing market is essential to a normal economy. In several states, savings and loan associations control somewhat less than half of the market. In these states, mutual savings banks play a significant role.

C. Mutual Savings Banks

Historically, mutual savings banks are much older than savings and loan associations. The earliest mutual savings banks were opened in 1816 in Boston and Philadelphia. Today there are almost five hundred mutual savings banks, concentrated in the New England and Middle Atlantic states. Over ninety percent of their assets are located in New York, Massachusetts, Connecticut, Pennsylvania, and New Jersey. In these states, mutual savings banks typically have a share of the mortgage market equal to or larger than that of all other lenders combined.

Almost all mutual savings banks are state chartered and all are mutual companies which distribute earnings to depositors in the form of interest on their savings accounts. Almost all mutual savings banks are also regulated by state agencies and most are also regulated by the Federal Deposit Insurance Corporation, which insures their accounts in all states except Massachusetts (where some savings banks are insured through a state program) or the Federal Home Loan Bank system, to which about fifty savings banks belong.

Like savings and loan associations, mutual savings banks offer a range of savings accounts and certificates of deposit. Savings banks have been more aggressive than savings and loan associations in taking advantage of opportunities to offer NOW accounts and other interest-bearing checking accounts. However, in 1977, 98 percent of their deposits were from regular savings accounts and certificates of deposit.[72]

State laws strictly regulate the types of stocks, bonds, and securities which savings banks may purchase. Like savings and loan associations, savings banks are designed to use long-term savings as a major source of home mortgage money. At the end of 1977, 38 percent of the assets of savings banks were in home mortgages and another 10 percent was in other types of residential mortgages. Two percent of their assets were in other types of consumer loans to their depositors and 31.7 percent was in stocks, bonds, and securities.[73]

In states where mutual savings banks are active, particularly New York, Massachusetts, and Pennsylvania, access to mortgage loans means access to mutual savings banks.

D. Pension Funds

Pension funds are the fourth largest group of financial institutions in the country, with combined assets in 1977 of $316 billion. They have the most stable source of funds of any financial institution, in the form of employer or employee contributions to the pension. Like life insurance companies, they can accurately estimate how much money they will pay out on disability and retirement benefits. Therefore, like life insurance companies, they have a financial base well suited for mortgages. However, pension funds invest only about five percent of their assets in mortgages of any kind.

There are two major types of pension funds. There are private pension funds and government employee, public retirement funds. Private pension funds are largest, with assets to $185.5 billion at the end of 1977. State and local pension funds had $130.5 billion in assets.[74]

In 1977, private pension funds held 54.9 percent of their assets in corporate equities and another 24.6 percent in corporate bonds, a total of 79.5 percent. Most of their remaining assets were in other liquid investments, such as government securities or preferred stocks. Only 1.5 percent of their assets are in mortgages.[75]

Public pension funds have a somewhat different profile of investments. They invest more in corporate bonds and less in equities, but their overall investments in both equities and bonds is about the same—79.9 percent. Like private pension funds, the remaining assets were largely in other liquid assets, with only 6.3 percent in mortgages.[76]

There are no significant federal regulations governing the investments which pensions funds may make. There are many strict regulations over state and local pension fund investments, and a considerable number of individual corporate regulations over private pension funds. Research on the investment policies of pension funds suggests that these laws and regulations generally place few restrictions on pension fund investments, and, in particular, do not limit their mortgage investment opportunities.[77] In the past, there have been some state laws which prohibited public pension funds investments in mortgages, but these have slowly been changed. Ironically, as these restrictions have been lifted, the level of investments in mortgages has been dropping for both public and private pension funds.

The high level of investments in corporate stocks and bonds apparently results from pension funds' hiring the trust departments of major commercial banks to invest their resources. The author of the most detailed study of pension fund mortgage investments writes:

> The great bulk of retirement funds are administered by the trust departments of about twenty-five commercial banks headquartered in New York, Chicago, and several other large cities. The strong influence of the commercial bank trust departments on pension fund investment decisions had led many funds to overemphasize, perhaps, short-run performance and short-term portfolio gains. This, in turn, has led to a heavy emphasis on investment in corporate

> stock and to a lesser extent in corporate bonds. Mortgages are not viewed favorably because the trust administrators feel "uncomfortable" and unable to "manage these investments".[78]

While few laws restrict pension funds investments, some laws do prod pension funds to use bank trust departments to control investment decisions. The Taft-Hartley Act implies that pension funds should be invested for the maximum short-term gains, and places corporate managers in control of most workers' pension funds boards. The use of the "prudent man rule" in legislation such as the Employment Retirement Income Security Act of 1974 has been used by financial institutions to strengthen their control over pension funds investments.[80] The prudent man rule requires that investments be made to minimize risk and maximize return.

It often appears that pension investments have been used by the trust departments of commercial banks to support commercial banking's traditional role of providing capital and credit for major private corporations.[81] This view has led one pair of researchers to conclude that "... banks are not the investment serving the fund. Rather, the fund is the instrument serving the bank."[82] This position is supported by some analysis of the rates of return which pension funds could get on mortgages, or securities which are based on pools of mortgages.

Public pension funds have traditionally been more conservative in their investments, investing more in corporate bonds than in corporate stocks because bonds are supposed to be more stable and secure. However, if we compare the interest rates for mortgages to those of AAA bonds, we find that for every year since at least 1960, both FHA-insured and conventional mortgages paid higher interest rates than AAA corporate bonds.

Investigations of the investments of pension funds, particularly public pension funds, have shown that their overall return in investments is often quite low. Many large public pension funds, such as the state pension system in California, have rates of return lower than certificates of deposits at savings and loan associations, mutual savings banks or commercial banks.[84] Typically, less than three percent of pension fund assets are in any kind of savings accounts or deposits. By increasing their use of these rather secure deposits, pensions funds could invest indirectly in both mortgages and a range of commercial activities. These funds could be directed to financial institutions with good records of reinvestment. By making these deposits in the form of certificates of deposit, all requirements of the prudent man rule would be satisfied, with returns typically larger than from present investments.

Presently, the bank trust departments which control pension fund investments have also maintained voting rights over that stock. There has been considerable discussion among unions, particularly public employee unions, and among several public interest groups about increasing the voting role of beneficiaries to control stock owned by their pension funds.

Pension fund investments through commercial banks are predominantly in the major (Fortune 500) corporations. The employees of many of these corporations, and the employees of the industries and local governments which depend upon these corporations, are still located primarily in the regions of the country suffering the greatest disinvestment. Yet pension funds are providing a significant amount of the capital being used to relocate plants out of these regions. The pension funds are participating in eroding the job base of the employees who are supposed to be the beneficiaries. As one reinvestment strategist commented, "Pensions are protecting people's future by destroying their present."[85] By increasing the role of beneficiaries in voting that stock, pension funds could influence corporate policies on plant locations. This reinvestment role might be more important than increases in mortgage-related investments since it could sustain and increase the employment base in disinvested areas. Such a role would require the revision of laws which presently deny beneficiaries the right to participate in the investment policies of their own pension funds.

E. Property Insurance

Property insurance is an essential ingredient in reinvestment. Without the guarantees which property insurance provides, banks and other lenders will not make loans or give mortgages. Insurance companies are now attempting to anticipate changes in the socio-economic structure of communities, thereby contributing to a self-fulfilling prophecy of disinvestment. It is clear from existing research in New York and Chicago that the main variable affecting insurance availability is the anticipation of racial changes in communities. Many areas of other cities in which insurance redlining is a problem are either minority or in the path of "anticipated" minority movements.[86]

Insurance redlining now encompasses larger areas of many central cities as well as some older suburbs and rural areas. Many of these recently-redlined neighborhoods are working and middle-class neighborhoods. Claim-free policyholders, heretofore considered to be good risks by insurers, now find themselves nonrenewed or cancelled without good reason. These neighborhoods filled with owner-occupied dwellings are victims of insurance company attempts to improve profits by writing only in "preferred areas" (i.e. the suburbs).

Often, however, redlining is not as clear-cut as the refusal to write in an entire urban area. Many industry practices have the effect of making it more difficult, if not impossible, to obtain homeowners insurance because of the geographic location of the property. Among these practices are:[87]

- selective placement of agents in "acceptable" areas;
- termination of "unprofitable" agents and the non-renewal of their book of business;
- requirement of insurance to replacement cost and the refusal to insure dwellings with a substantial disparity between the market value and the replacement cost;
- outright refusal to insure because of the age, construction (usually frame), or subjective evaluation of the building;
- subjecting urban homes to inspections not conducted on other homes;
- refusal to insure because of the condition of an adjoining or nearby dwelling;
- refusal to insure because of space heaters or because of the floor plan of a dwelling;
- making substantial changes in the application and underwriting criteria which are not operative in other areas, and
- artificial pricing structures which have the effect of pricing the company out of the market in certain areas.

These practices can have a devastating effect when they occur. For example, it is common for companies to refuse to insure dwellings more than 30 years old. This automatically eliminates a large portion of housing stock in many older urban centers. Yet industry actuaries say that national studies show no significant increase in risk on any dwelling over five years old.[88] In addition, many companies will not insure a frame dwelling, no matter what its condition.

Anyone who is denied insurance in the voluntary market is virtually consigned to the FAIR Plan, which usually offers less coverage for more money and carries with it the specter of second class coverage. Most companies will routinely refuse to insure any property which has been rejected, nonrenewed of cancelled by another company, regardless of the reason. This has special implications for a person whose insurance has been non-renewed merely because his or her agent's contract was cancelled.

Agents seek to be careful about the applications they submit to insurance companies because they fear they will be labeled as "unprofitable". This designation is made on the basis of the agent's loss ratio on the amount of insurance which he or she writes. Agents with high loss ratios or a high number of rejected policies are often terminated by their companies. Fearing these terminations, many agents write only risks they are sure their company will accept, refusing all others or writing them on the FAIR Plan.

The number of people on the FAIR Plan has skyrocketed from 312,000 policies in 1969 to 909,000 policies in 1977. Yet the Federal Insurance Administration notes that over 70 percent of FAIR Plan claims are made by less than 30 percent of FAIR Plan policy holders.[89] For the vast majority who have made no claims, the reduced coverage, poorer service, and increased rates of the FAIR Plan is an injustice which should be corrected. The Federal Insurance Administration and community organizations across the country are asking whether the increased use of the FAIR Plan represents a good opportunity for those who would normally be uninsurable, or whether it simply licenses insurance companies to profit from a discriminatory dual insurance system.

1. FAIR Plans

FAIR Plans (Fair Access to Insurance Requirements) are federally mandated, state-sponsored, "last resort" insurance mechanisms for those unable to obtain property insurance in the voluntary market. The FAIR Plan legislation was essentially a compromise between the insurance industry and those pressing for increased availability of insurance for the inner city. In order to coax the industry into cooperation, Congress offered them a program through which they would be able to purchase Riot Reinsurance from the Federal government. This reinvestment was designed to protect them against large losses due to riot or other civil disorders. Riot Reinsurance is available to all the insurance companies writing insurance in states that have established FAIR Plans to provide essential property insurance.

As instituted in most states, the FAIR Plan is an association made up of all the insurance companies writing the lines of insurance offered by the FAIR Plan in that particular state. All profits, losses, and expenses of the plan are divided among the participating companies based on the amount of business each company writes per line in that state. For example, a company which writes 9 percent of the fire insurance in the state will pay 9 percent of the losses from all fire insurance written by the FAIR Plan in that state. Thus, the potential burdens or benefits of the plan are spread evenly among all the insurance companies who write in the voluntary market.

One of the main purposes of this formula, besides protecting the companies involved from potential insolvency, is to spread the risks of the FAIR Plan across the whole insurance market, not confining the losses to the FAIR Plan itself. The FAIR Plan is thus subsidized, to an extent, by the conventional market. At most, this adds less than one dollar additional premium per year per insurance policy on the voluntary market.

The creation of the FAIR Plan system condoned the insurance company practice of underwriting neighborhoods rather than individual risks. Insurance companies were not chastised for their failure to write insurable risks in lower income or minority areas, but were allowed to establish a separate system into which they could force all those policies they chose not to write, regardless of the condition of the individual property. FAIR Plans allow companies to pull their agents businesses out of large areas of our urban areas.

The result is a system which seems designed to fail, despite its seemingly good intentions. Insurance company profit motives and misguided state policies, many of which violate the intent of Congress, have made a shambles of the FAIR Plan system. FAIR Plans, instead of acting to make property insurance available to all at a reasonable cost, have developed into a dumping ground for property holders unable to obtain coverage in the conventional market. FAIR Plans are used in redlining, enabling the companies to pull their agents and businesses out of large areas of our urban areas, leaving the residents of those areas to the second-class status that comes with a FAIR Plan policy.

There are three specific areas of FAIR Plan failure: service and availability of coverage, pricing, and its use as a dumping ground. Each of these is a serious problem which must be dealt with to solve the insurance redlining problem.

The litany of FAIR Plan abuses and inequities is long. In all but four states, liability and theft coverage is not available, preventing a homeowner with FAIR Plan coverage from adequately protecting his/her property. Even where these coverages are available, the coverage limit is much lower than in the conventional market. For FAIR Plan policy holders in other states, coverages are limited to Fire and Extended, Vandalism and Malicious and Mischief. Most properties must be inspected before coverage will be provided, unlike the voluntary market. Service on the FAIR Plan is notoriously poor. In some states, dwellings over two units are classified as commercial, even if they are owner-occupied, raising the cost of coverage substantially.

Pricing of FAIR Plan coverage is also a point of failure, although recently-passed legislation should do much to alleviate this problem. Although FAIR Plans traditionally provide less coverage, they are often more expensive.

There has been a concerted attempt to make the other Plans self-rating (i.e., that the loss experience of the FAIR Plan is the basis for FAIR Plan rates). This would be a distinct departure from the present means of determining FAIR Plan rates—basing them on the loss experience of the whole insurance market. Some people claim that it is unfair for those insured in the voluntary market to subsidize the losses of the FAIR Plan. But it would be more unfair for the many "clean" risks forced onto the FAIR Plan by insurance redlining to bear the additional burden of supporting the demonstrably bad risks on the FAIR Plan. According to figures released by the New York FAIR Plan, more than 70 percent of all dollar losses to the Plan were on poorly maintained and/or partially vacant buildings.

Although only one FAIR Plan, New York's, is self-rating, premiums in many states are increased through a system of surcharges and by classification of three- and four-unit owner-occupied dwellings as commercial, rather than residential, risks. Although the intent of the Congressional legislation clearly states that environmental surcharges were not to be allowed. FAIR Plan rates have traditionally reflected higher rates for inner-city areas through this system of surcharges.

The FAIR Plan creates a dual system of insurance, separate and unequal. In response to complaints about this dual system, some companies have begun to market a new, allegedly "conventional" plan for homes in older areas. Insurance companies complain that in many older areas the cost of replacing a home far exceeds its market value. They claim that offering a typical replacement-cost insurance policy on such a property places the homeowner in a position of "moral hazard" (i.e. that the homeowner would commit arson on his own home to profit from the insurance). Thus, they are willing to offer a special urban program which insures the home, but only at its lower market value.

Whether the FAIR Plan is maintained or whether these new market policies are used instead, there will still be a dual insurance system. There does not appear to be a good reason for maintaining this dual system. The FIA has estimated the costs to conventional policyholders if all FAIR Plan rates were equal to those in the conventional market within each state. Their calculations show that while FAIR Plan policyholders would save from thirteen to sixty-two percent, the increase in rates for conventional policyholders would be insignificant. These figures do not include New York. Here conventional premiums would increase about two percent, although FAIR Plan participants would save sixty-two percent as a result.[90] This suggests that the FAIR Plan could be eliminated with only marginal increase in conventional rates.

2. Insurance Redlining Studies

Information about insurance applications, rejections, cancellations, and coverage is not usually public. Most organizations which have taken up the issue of insurance redlining have reported many individual experiences of rejections, cancellations and increased rates. Disclosure of insurance information has become an almost universal demand of community groups.

In spite of the general lack of data, there have been several significant studies which shed light on the issue. In the case of insurance redlining claims, state regulators and other government agencies have been willing to use their resources to collect and analyze information. This is due in part to the lending industry's support of these efforts. Studies which have been done by community groups, state and local agencies, government officials, and the Federal Insurance Administration all point to two major conclusions. First, the assignment of individuals and areas to the FAIR Plan coverage has not been based on sound or objective determinations of risk. Second, cancellations, terminations, and rejection of applications for insurance also do not appear to be based on sound and objective determinations of the insurability of the individual risk. It could be said that the major finding of these studies is that in spite of the emphasis in the insurance industry on complex statistical forecasting techniques and actuarial analysis, property insurance underwriting frequently appears to be based on subjective decisions. Moreover, these subjective standards mirror the real estate and lending appraisal industries' models of decline and assumptions about the impacts of racial change. Generally, insurance studies show that older, minority, and racially changing neighborhoods have great difficulty getting coverage in the voluntary market.[91]

The most extensive range of studies have been done in Chicago and New York City and serve to illustrate the range and severity of the issue. The Illinois Department of Insurance carried out its own investigation of the policies of eight companies, including most of the largest companies in the state.[92] The investigation included extensive reviews of a large sample of existing files as well as a testing program covering a larger selection of companies.

The results confirmed widespread use of discriminatory practices. The most common reason why companies would not insure a property had to do with unspecified statements about the declining condition of the neighborhoods. Second, the age of the property was sighted as the reason for denying insurance. In some cases, agents made direct references to the race of the buyers or the neighborhood residents.

Using data secured from the Illinois Department of Insurance, Chicago's Metropolitan Area Housing Alliance (MAHA) mapped both the area where more than 92 percent of Chicago's FAIR Plan policies were written and the areas where major insurance companies had cancelled or nonrenewed large numbers of policies. The two areas are virtually identical.[93]

These areas are also the ones which are avoided by conventional lenders and inundated by FHA lending. A study by the National Training and Information Center shows where Chicago's conventional loans were placed in 1976 and where FHA lending occurred. The maps indicate that FHA lending patterns are a negative image of conventional patterns. FHA lending areas parallel the FAIR Plan areas and areas of cancellations and nonrenewals. Census data show that these are also the areas of minority concentration.[94]

The New York Public Interest Group (NYPIRG) made a detailed study of the locations of insurance agents in New York and conducted interviews with a sample of these agents.[95] They found that most of the agents were located in suburban areas.

Interviews with agents indicated that they felt they could not operate offices in many parts of the city because companies would not write policies there. The study concludes:

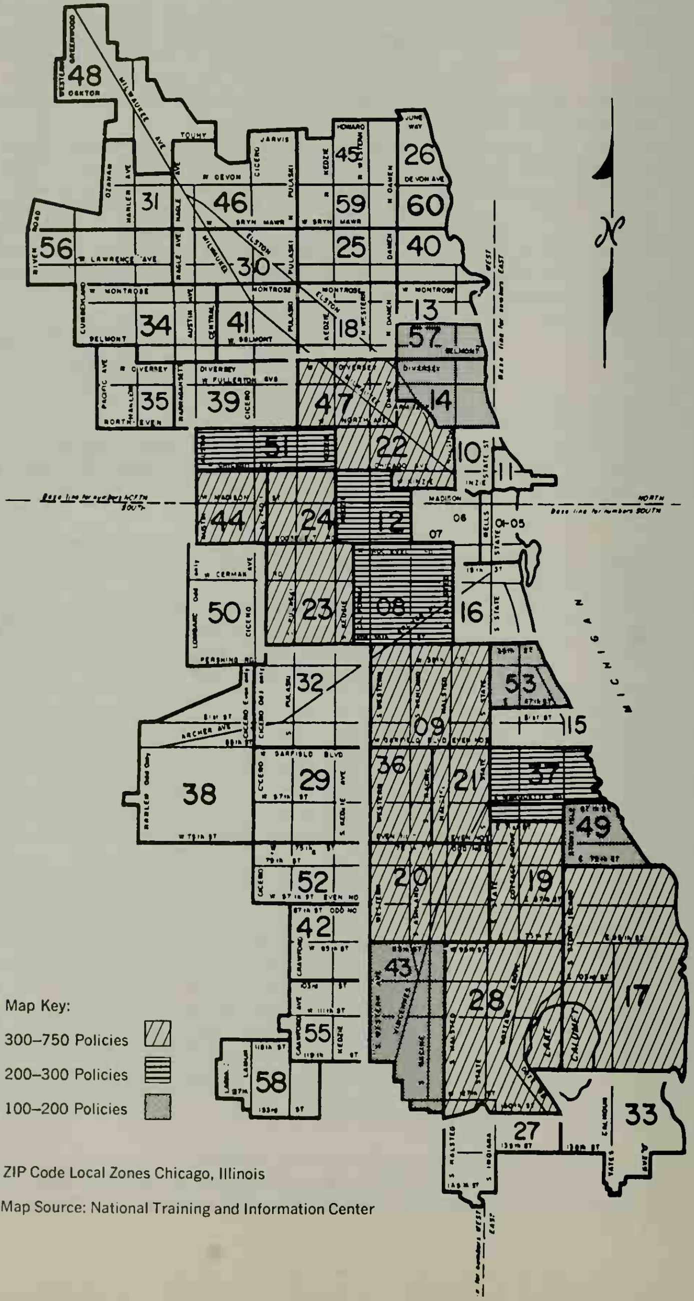
> Over 80 percent of all agents and brokers whom we interviewed recognized and affirmed the existence of the redlining practices.
>
> More significantly, three-quarters of those producers who acknowledged the existence of the practice could name the redlined areas in their cities. On occasion, the boundaries of the redlined areas could be identified by street.[96]

The Federal Insurance Administration (FIA) collected data on a large sample of policies sold under the New York FAIR Plan and mapped their locations within New York City according to 278 neighborhood classifications.[97] Data was also collected on income levels, racial composition, and other characteristics of the areas. Finally, data was collected on building code violations.

The analysis confirmed that many of the neighborhoods which the NYPIRG study had identified as redlined from interviews with insurance agents did have extremely high rates of FAIR Plan coverage. The results showed that while there was sometimes a correlation between rates of FAIR Plan use and building violations, and also a relationship between statistics on vacant buildings and FAIR Plan use, these relationships are not at all universal. In particular, FAIR Plan coverage seemed to be associated more with the racial composition of the area than with vacant buildings, the age of properties or building code violations. As the report states, "Correlation tests show that FAIR Plan policies are slightly more likely to be written in a black or Puerto Rican neighborhood than in a neighborhood that contains building code violations."[98]

Most of the insurance redlining research has been done for single-family homes. Yet the research which led to the FAIR Plan documented the lack of insurance for multi-family buildings and commercial businesses as well.

Map 1: Fair Plan Policy Placement Activity New and Renewed Dwelling Policies September 1, 1977-November 30, 1977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36
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37
49
52
20
19
42
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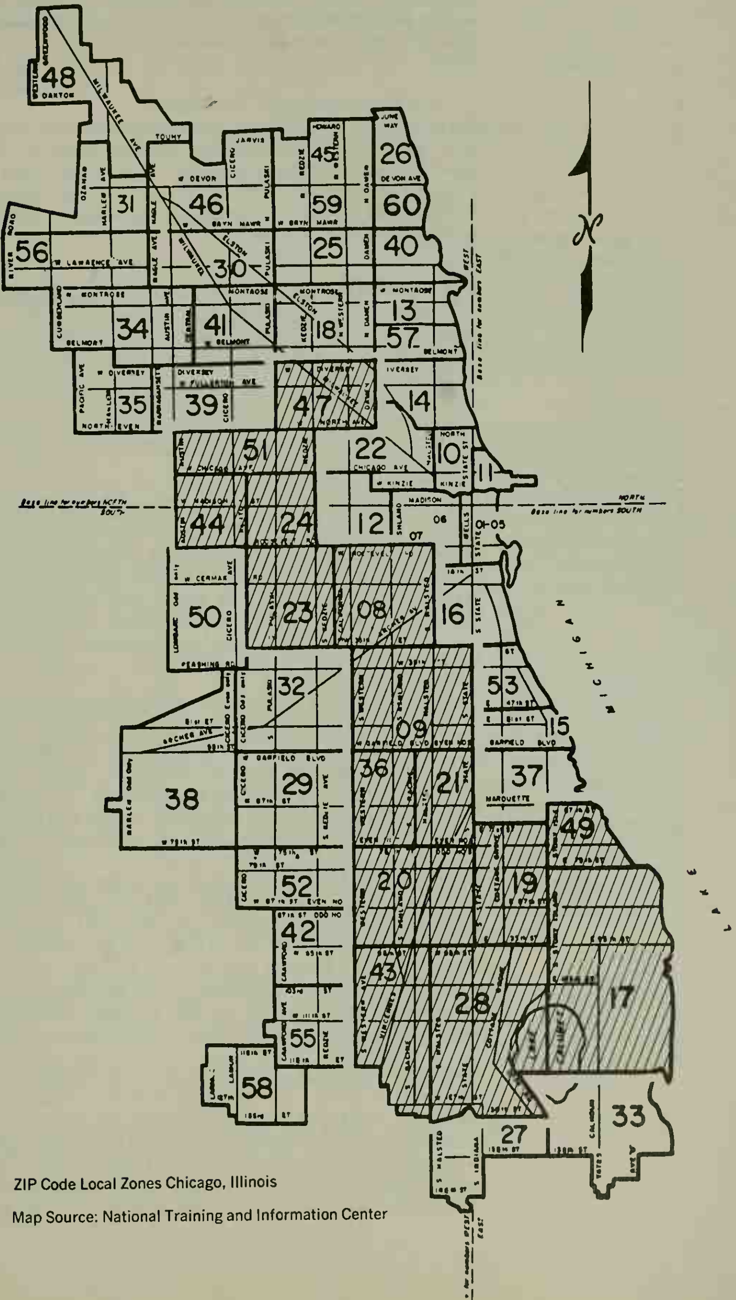
Madison
Base line for numbers NORTH
SOUTH
Base line for numbers EAST
WEST
N
Lake Michigan
Map Key:
300–750 Policies ▨
200–300 Policies ▤
100–200 Policies ▩

ZIP Code Local Zones Chicago, Illinois

Map Source: National Training and Information Center

Map 2: Allstate Cancellations and Nonrenewals March 31, 1977-December 31, 1977. The indicated have suffered 74% of Allstate's Cancellations and Nonrenewals of Homeowners Insurance during this period.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MICHIGAN
MILWAUKEE AVE
ELSTON
BELMONT
DIVERSEY
NORTH AVE
CHICAGO AVE
MADISON
W CERMAK
GARFIELD BLVD
ARCHER AVE
CICERO
PULASKI
WESTERN
HALSTED
STATE ST

ZIP Code Local Zones Chicago, Illinois

Map Source: National Training and Information Center

Those organizations which have been working on commercial revitalization and on multi-family rehabilitation have continually reported that the inability to secure insurance is a major obstacle to redevelopment. In many cases, lack of insurance is the primary reason for being denied mortgage and construction loans. Given the critical role which commercial and multi-family properties play in the economics of most older neighborhoods, more attention must be paid to defining the insurance needs and problems in the area.

F. Mortgage Insurance Providers

Homeowners insurance is a required form of risk protection for a lender. Mortgage insurance provides another type of risk protection for the lender—though it is not required for all loans. Mortgage insurance simply protects the lender from all or part of the losses which result from a foreclosure. The insurance premiums are paid by the homeowners, but the policy protects the lender.

1. Federal Housing Administration (FHA) Mortgage Insurance

The first and possibly the best known form of mortgage insurance was established by the federal government in 1934 when the Federal Housing Administration (FHA) was created as one of the New Deal programs. The FHA was a companion program to the Federal Home Loan Bank Board, which created federal savings and loan associations. The FHA was given the power to insure both home improvement loans and home mortgage loans. In the case of the mortgage loans, the insurance was for 100 percent of the value of the mortgage.

In a time when credit was hard to come by and the economic situation posed a threat to the stability of anyone's income, providing lenders with insurance against losses due to foreclosure was a major contribution to stimulating the homebuilding industry. The FHA was authorized to establish underwriting and construction standards to be met before a loan would qualify for insurance. Because lenders and developers wanted to be able to qualify for insurance, these standards set the norms both for building specifications and for loan underwriting in general.

Some of the FHA policies were creative. Prior to the FHA, only wealthy and middle class people could afford a home. This was partly due to the fact that mortgage terms were not attractive for people who did not have considerable savings and the ability to make large monthly payments. Mortgages required high downpayments. Mortgages ran for only a few years, with high monthly payments. At the end of this time, a large portion of the mortgage had to be paid off in one final balloon payment.

FHA set a new policy requiring lower downpayments, spreading the mortgage over many years, with constant monthly payments, and eliminating the final balloon payment. As lenders saw how this type of mortgage allowed many more people to buy a home, it became the standard throughout the lending industry. In this way, even though FHA actually insured only a small number of all mortgages, its policies contributed significantly to the rapid growth of the homebuilding industry and the suburbanization which followed World War II and the Korean War.

The most dramatic change in the FHA program took place with the National Housing Act of 1968. The act created a range of subsidized mortgage insurance programs which are named after the section of the housing act which created them. The Federal Housing Administration had unsubsidized programs for single family homes [(Section 203(b)] and for multi-family developments (Section 207). Some of the subsidized mortgage insurance programs were for multi-family housing such as the Section 236 program which insured subsidized mortgages for new multi-family buildings which had all, or a substantial, portion of their units rented to moderate and lower income persons. There was also a special subsidized program for home ownership for lower income people, called the Section 235 program. A program called 223(e) insured loans for persons considered especially high credit risks. The combination of the insurance programs and subsidy programs was so effective for producing new construction that in 1969, almost one-third of all housing units built were subsidized and FHA-insured.

Some of the problems that came about as a result of these FHA programs are discussed in other sections of this report.

2. VA Guaranteed Loans

In 1944, the Veterans Administration (VA) was allowed to create a special program to help veterans become homeowners. Under this plan, the Veterans Administration guaranteed a lender the appraised value of a home. If there was a foreclosure, the Veterans Administration would pay the lender any differences between what the lender could get for the home and the guaranteed value. From the homebuyer's point of view, this program had the added advantage that the VA loans could be made for the full value of the home, with no downpayment at all.

Over the years, the number of veterans eligible for these loans has increased. In addition, the VA changed its original rules which formerly allowed a veteran to use this program only once in a lifetime. The new rules allow veterans to get another VA loan as long as there is only one VA loan outstanding at a time. This has greatly expanded the market for VA loans. In any given year, there might be more FHA loans or more VA loans, but since these rule changes, there have typically been many more VA than FHA loans. Like FHA loans, VA loans have been partly responsible for housing booms after World War II, the Korean and Vietnam Wars.

3. Private Mortgage Insurance (PMI)

Within the last decade, private mortgage insurance companies have begun to play an increasingly important role in the mortgage market. Originally, these companies were created by individuals who had worked with FHA lending programs or who had actually been officials in FHA. They saw a potential to provide a more limited form of mortgage insurance, at lower rates to the private market. Rather than insuring or guaranteeing the full value of a loan, as FHA and VA loans did, private mortgage insurance companies insure only part of the mortgage. Most lenders are required by law to make loans for about 80 percent of the value or less. This means that homebuyers must make downpayments of 20 percent or more. These requirements are designed to protect the lender against losses. In the case of insured loans, since the insurance protects the lenders, lenders are allowed to reduce, or even eliminate downpayments altogether.

Private mortgage insurance companies allow lenders to reduce downpayments on conventional loans to as low as five percent in some cases, by insuring the lenders against any losses due to these lower downpayments. A lender normally requiring a 20 percent downpayment could reduce that to a 10 percent downpayment by getting private mortgage insurance to cover the difference.

Private mortgage insurance is much less expensive than FHA, since the premiums only insure part of the loan. In addition, when the loan amount has been reduced to pay off the top part of the loan which was insured, the policy ends. In the case of FHA, the insurance remains through the entire life of the mortgage.

The agencies which regulate mortgage lenders have continued to increase the volume of loans which a lender can make using private mortgage insurance. There had been some concern when the use of PMIs was first catching on that the underwriting standards for PMIs would follow traditional models and exclude older city neighborhoods. It has been true that PMI has been used predominantly to allow young couples and individuals to buy a home or condominium earlier in life when they do not have enough savings for a standard downpayment. When developers advertise that their houses can be purchased for five percent down, they are referring to privately insured loans. On the other hand, most of the major private mortgage insurance companies have developed good working relationships with lenders and lending programs serving innercity areas. This extends the use of PMI to many moderate and lower income families, making it possible for them to buy a home using a conventional privately-insured loan.

G. The Secondary Mortgage Market

1. Definition

The secondary mortgage market is a term used to describe the process of selling mortgages which a lender has originated. If a lender can sell a mortgage and get back money used to make the loan in the first place, then the money can be used again for another mortgage, or for some other purpose. Sometimes lenders will need to sell off some mortgages in order to get back money needed for reserves depleted by heavy withdrawals from savings accounts.

2. Purpose

The purpose of the secondary mortgage market is to increase the total amount of money available for mortgages by selling mortgages to investors who do not themselves make mortgages. Another purpose is to move mortgage money from one part of the country to another. Lenders in one part of the country may have more money than they need for mortgages, but be required by law to invest in home mortgages. One way for them to solve this problem is to purchase mortgages from lenders in another part of the country where there is a shortage of mortgage money. These purchases count as mortgages and fulfill the first lender's obligation to invest in mortgages, while helping the second lender meet the shortage.

Increases in the volume of purchases in the secondary market can be attributed largely to three federally-created secondary market institutions. In 1938, the federal government created the Federal National Mortgage Association (FNMA called "Fannie Mae") empowered to purchase mortgages and otherwise stimulate the secondary market. In 1968, Congress made FNMA a privately-owned corporation. But FNMA has retained the right to issue securities at preferred rates and to borrow directly from the U.S. Treasury. FNMA can thus raise large sums of money to purchase mortgages.

Also in 1968, Congress established the Government National Mortgage Association (GNMA called "Ginnie Mae"). This is a government agency located in the Department of Housing and Urban Development. In addition to its ability to borrow from the Treasury and in the private market, this agency receives its own budget from funds approved by Congress. Although GNMA does not purchase and hold large numbers of mortgages itself, it uses its programs and funding to stimulate and subsidize selected segments of the secondary mortgage market.

Finally, in 1970, the federal government created the Federal Home Loan Mortgage Corporation (FHLMC called "Freddie Mac") as an agency of the Federal Home Loan Bank Board. This is another institution which is designed to purchase mortgages in the secondary market. It works primarily with savings and loan associations and mutual savings banks. One purpose for FHLMC was to provide an institution which could purchase conventional mortgages from savings and loans to replace declining reserves during periods of heavy savings withdrawals.

4. How Large a Role Does the Secondary Market Play?

The secondary market, largely as a result of the effects of the three government-created agencies, plays a large and growing role in the general mortgage market. In 1977 there were $157.3 billion in home mortgages originated by all types of lenders. In the same year, $54.8 billion in home mortgages were purchased in the secondary market.[99]

5. How Does the Secondary Market Operate?

In general, institutions which are buying mortgages develop correspondent relationships with other institutions which originate mortgages. Through these networks, they are able to seek out pools of mortgages to purchase. Because they do not have local offices in all the areas where they buy mortgages, institutions which purchase mortgages cannot service these mortgages (i.e. collect the monthly payments and handle problems of default and foreclosure) locally. They hire institutions which do have local offices to perform this function for them. Those who are servicing loans receive a fee which is usually less than one-half of one percent of the outstanding balance of the mortgage. In most cases, the lender which originated the mortgage is hired to do the servicing. Because the payments continue to go to the original lender in these cases, the homeowners never know that their mortgages have been sold.

When a lender sells a mortgage, he or she cannot always sell it for its full value. Institutions which are purchasing mortgages seek out mortgages with the highest interest rates. In some states, usury laws limit the interest rates which can be charged on home mortgages. Most of these laws are in Eastern, Atlantic and Midwestern states. Interest rates on mortgages in these states are usually lower than interest rates on mortgages where no such laws exist, such as in California. In addition, FHA-insured mortgages have interest rates which are set slightly below the current conventional mortgage level. In order to sell mortgages which have interest rates lower than the general market, lenders must sell them at less than their full value, or at a discount.

A discounted mortgage will give the purchaser a return which is comparable to loan with a higher interest rate. The purchaser receives the full, original loan payments on the smaller purchased loan which is like having a loan at a higher interest rate. For example, if the normal market rate for mortgages with terms of 25 years is ten percent, and a lender wants to sell a mortgage which has an interest rate of only 9.5 percent, the lender could sell it for about 96 percent of its actual value.

This discount system influences the types of mortgages which are sold in the secondary market. In states which have usury laws, few conventional mortgages are sold in the secondary market. FHA loans are sold in the secondary market. The institutions which sell FHA mortgages typically do a large volume in FHA lending and have developed ways of charging special fees such as additional "points" to make up for the losses from selling at discount rates.

As the secondary market has increased and more institutions have participated, there has been a search for reasonably uniform underwriting standards. Just as the FHA first provided a federally-endorsed norm by blessing the conventional use of models of decline in underwriting, the federally-created secondary mortgage market institutions have been playing a normative role in underwriting, especially since the late 1960s. These institutions do not purchase the majority of loans in the secondary market themselves. But loans which lenders want to sell to either FNMA or FHLMC must use a loan application form issued jointly by these two institutions. As a simple matter of eliminating unnecessary paperwork, most major lenders now use these forms, and thus record information which these institutions consider important in making loans.

6. *What Functions Do FNMA, GNMA, and FHLMC Serve?*[100]

A. FNMA

FNMA was created especially to purchase FHA loans. After the creation of the VA loan program, FNMA was authorized to purchase VA loans as well. Because these loans are completely insured or guaranteed and because both the FHA and VA have their own underwriting standards and reviews, FNMA does not underwrite any FHA or VA loans. FNMA will purchase any FHA or VA loan without question. In 1970, Congress gave FNMA authority to purchase conventional mortgages and it began purchasing such mortgages in 1972. Prior to undertaking this initiative FNMA did not even have a person trained in underwriting on its staff.

A relatively small role was played by FNMA in the secondary market until it was set up as quasi-private corporation in 1968. FNMA has a board of fifteen members, of which five are appointed by the President of the United States and ten are elected by the stockholders. Although it is considered a private corporation, it can borrow from the U.S. Treasury. In addition, the Secretary of the Department of Housing and Urban Development regulates and authorizes its programs. FNMA has a special responsibility to serve the needs of moderate and lower income persons.

Since FNMA became a private corporation, its assets have grown rapidly. Presently, it is the sixth largest corporation in America with assets of $34.0 billion. At the end of 1977, it held $34.4 billion in mortgages; 19.2 percent of these are conventional and the rest are FHA or VA.[101] The FHA and VA loans are purchased primarily through an auction process. In these biweekly auctions, those who wish to sell FHA or VA mortgages to FNMA can submit bids which state the discount rate and the dollar amount of mortgages they want to sell. If FNMA accepts the bid, they secure a commitment from FNMA to purchase these mortgages at this discount rate at a specified time in the future, usually six months or a year from the date of the commitment. The sellers then have this time period to originate the mortgages FNMA has agreed to buy. This auction process has made it easier for those selling FHA loans to estimate both the volume of loans which they must originate and the losses they will take by selling at a discount. This enables them to charge special fees, called "points", to make up for these losses. A point is one percent of the value of the mortgage. FHA regulations prohibit lenders from charging homebuyers more than one point, but lenders can charge the seller additional points if the seller agrees. Although the auction system has streamlined the secondary market for federally insured loans, it favors the lenders who deal in large volumes of FHA loans. Small lenders who make occasional FHA loans do not have the ability to estimate far in advance how many FHA loans they will make.

B. GNMA

When FNMA was established as a private corporation, GNMA was established as an agency within HUD to take over several functions which FNMA was originally created to serve. One of these functions is to borrow from the Treasury to provide mortgage money when the mortgage market is tight. In addition, this agency has the power to purchase particular types of mortgages which the government wants to encourage. Typically, GNMA stimulates mortgages on new properties rather than loans on existing units. To encourage lenders to make loans on subsidized loan programs and for new single family and multi-family developments, GNMA agrees to purchase loans at discount rates which are higher than market rates. GNMA then sells these loans in the secondary market at a loss. Federal appropriations subsidize these losses. GNMA has developed several programs, called "Tandem Plans" where GNMA buys and assembles subsidized mortgages at higher than market rates and then sells them directly to FNMA at market rates. Through one piece of legislation, the Emergency Home Purchase Act of 1974 (Brooke-Cranston), Congress authorized $7.7 billion in purchase commitments for GNMA's purchase of conventional mortgages on new single family homes.

GNMA has played another role in the secondary mortgage market which has had an even larger impact. GNMA guarantees the payment on securities which financial institutions sell based on pools of FHA and VA mortgages. Financial institutions purchase large pools of FHA and VA mortgages and sell securities which are backed by the payments on these mortgages. Financial institutions simply pass on to the security holders monthly payments of principle and interest. This is called a "pass through" security. Financial institutions make fees for handling the securities and make profits from mortgages which are paid off early.

Although FHA and VA loans are already insured or guaranteed, GNMA guarantees the actual monthly mortgage payments on time, so that the holders of these securities, and the financial institutions which administer them, will not suffer any delays or losses due to late payments, defaults, or foreclosure proceedings.

By guaranteeing timely payments on mortgages which support these securities, the securities have become stable and profitable investments for those individuals and institutions which are interested in liquid investments such as stocks, bonds and securities. At the end of 1977, there were nearly $50 billion in outstanding mortgage-backed securities as a result of this GNMA program. These represent the largest single segment of the secondary mortgage market. This program has made lender-sponsored "pools" the largest purchasers of mortgages in the secondary market.[102]

C. FHLMC

The Emergency Home Finance Act of 1970 created the Federal Home Loan Mortgage Corporation, a government sponsored corporation under the control of the Federal Home Loan Bank Board. A principal function of FHLMC is to purchase conventional mortgages from savings and loan associations. The Emergency Home Finance Act also gave authority to FNMA to purchase conventional mortgages. FNMA has purchased such mortgages primarily from mortgage bankers and to a lesser extent, commercial banks and savings institutions.

While FNMA issues its own debentures to raise money to purchase loans, FHLMC raises most of its money by, in effect, selling mortgages. There are two main programs. The major one uses the "pass through" process similar to GNMA guaranteed pools. But the pools that FHLMC guarantees are put together from their own purchases and are backed by conventional mortgages. In another program, FHLMC sells securities which have a more fixed rate of return and a fixed maturity date when the principle is repaid. These securities, called "GMC"s are also paid off with the principle and interest payments made on the mortgages which back the securities. But unlike "pass through's" these securities are not considered to be equivalent to mortgages for investment and tax purposes.

Through these techniques, and through special tandem programs with GNMA and a program which allowed FHLMC to use the Federal Home Loan Bank's authority to borrow from the Treasury, FHLMC raises, or has raised, funds to purchase mortgages. Also through these techniques especially the pass throughs which are called "Participation Certificates", FHLMC is actually involved in re-selling the mortgages which it purchases creating a kind of secondary, secondary mortgage market.

FHLMC is constantly testing out new methods of purchasing and re-selling mortgages to expand the mortgage market. As a corporation which receives no government subsidy, it acts like a private corporation and seeks to make the most profitable investments. FHLMC is growing at a tremendous rate. In 1975, it committed to buy $1 billion in mortgages. In 1977, its commitments had grown to $5.5 billion.[103]

D. The Underwriting Standards of GNMA, FNMA, and FHLMC

Because of their large and growing role in the mortgage market, the underwriting standards of the federally-created secondary mortgage market institutions are a major issue. For its part, GNMA does not have its own detailed underwriting standards. FHA and VA underwrite and insure or guarantee the mortgages which GNMA supports in the mortgage backed security programs. The other mortgages which GNMA has purchased at above market rates have either been FHA insured or conventional mortgages on new properties. For these conventional mortgages, GNMA depends upon the underwriting of the lenders which originate them.

Both FNMA and FHLMC developed underwriting guidelines for use by lenders selling conventional mortgages to these agencies. FNMA and FHLMC also have their own staff of underwriters which decides whether or not to purchase each loan submitted to the agency by a primary lender.

The underwriting guidelines used by FNMA and FHLMC initially reflected many of the traditional discriminatory underwriting assumptions used by private lenders. In recent years, many of these descriminatory factors have been removed from the FNMA and FHLMC guidelines. However, some significant problems still persist.

Perhaps the most serious remaining problem is use of the concept that the term of the loan should not exceed its estimated "remaining economic life." "Economic life" is a appraisal term for the period of time a property supposedly will produce income from rent or by sale. Reliably estimating remaining economic life is virtually impossible, and subjectivity of the estimate therefore allows discriminatory assumptions about neighborhood life cycle or racial change to be used.

In December 1978, in testimony before the Senate Committee on Banking, Housing, and Urban Affairs, FHLMC announced its intention to revise its guidelines so that henceforth remaining economic life will only be taken into account if the appraiser can document that it is five years or less. This is an important reform. However, at the same hearing, FNMA held firm to the view that remaining economic life is an important and valid criterion, and that a loan should not be made if its term would exceed the appraiser's estimate of remaining economic life.

7. *What Is the Impact of the Secondary Mortgage on the Overall Mortgage Market?*

Taken together, the different roles of the participants in the secondary mortgage market act to increase the supply of funds in the mortgage market and to redistribute these funds. Unfortunately, this process does not necessarily produce a better flow of credit in disinvested areas, and it may even accelerate disinvestment.

When savings and loans, mutual savings banks, and commercial banks simply purchase loans from each other, they are not increasing the supply of mortgage funds, only redistributing it. When savings institutions purchase mortgage participation certificates or mortgage-backed securities, this also redistributes mortgage funds without actually increasing them. When GNMA uses its programs to stimulate the use of mortgage-backed securities, which are sold to commercial banks and institutional investors who are making investment in securities rather than mortgages, this technique draws new funds into mortgages. As FHLMC sells more mortgage participation certificates to investors who have previously put their money in stocks and bonds, this increases the supply of mortgage funds.

The difficulty with this system is that it seems to create a dual system which parallels the investment and disinvestment of the lending industry. While the pool of funds is increased through GNMA mortgage-backed securities, these are limited to FHA and VA loans. Thus, the increase does not increase conventional credit to older neighborhoods, but only encourages the use of insured lending, placing a stigma of high risk on these neighborhoods. GNMA's other purchases on the tandem plan have subsidized new construction rather than existing homes.

FNMA also encourages the use of FHA and VA programs. FNMA and GNMA programs together encouraged the purchase of $8.2 billion in FHA home mortgages during 1977. This compares with the 1977 total FHA insuring volume of $8.8 billion.[104] For FHLMC, its purchasing policies are determined by the interest rates on the mortgages it buys. By seeking out mortgages with the highest interest rates, they have typically avoided purchasing mortgages from heavily disinvested areas of the East and Midwest. At the end of 1977, an analysis of FHLMC mortgage holdings show that two-thirds of the mortgages they purchase come from the areas of the Los Angeles, Seattle, and Atlanta offices. The Boston, New York, Pittsburgh, Indianapolis, and Chicago regions account for less than 12 percent collectively.[105]

FHLMC does have a good record of buying loans from some special urban lending programs, and FNMA has a plethora of urban lending programs. But the volume of these is very small in relation to the general patterns which stimulate conventional mortgage markets in new construction areas and areas of high interest rates, while providing only federally insured mortgages for other areas.

H. Mortgage Bankers

The role of mortgage bankers in the home mortgage market is largely a product of the Federal Housing Administration. The mortgage banking industry grew to originate and sell Federal Housing Administration mortgages. Mortgage banking firms have no deposits. They are private firms which borrow money from commercial banks to raise money to make mortgages. When they sell these mortgages to other secondary market investors, they repay the commercial loans. The investors which purchase the loans pay the mortgage bankers a fee for servicing the mortgages.

The details of the mortgage banking business can be complicated, but in general, they make money by charging fees to originate the mortgages and by collecting fees to service the mortgages after they are sold.[106] They may also make some money by selling title or homeowner's insurance, but the major sources of profits are in origination fees and servicing fees.

Typically, the interest rate they pay on loans from commercial banks is higher than the interest rate they get on the mortgages they make.[107] Thus, the longer they hold the mortgage before they sell it, the more interest they will have to pay and the more money they lose. In addition, they have to sell the mortgages at a discount in the secondary market. To make up for these losses, mortgage bankers charge origination fees (or points) when they make a mortgage loan.

In spite of losses on the commercial loans and selling at a discount, mortgage bankers make a substantial profit on loan originations. In 1975, their average net income for loan originations was $8.1 for every $1,000 in mortgages made. Their net income from servicing was $2.40 for every $1,000 of mortgages outstanding.[108]

Successes in the mortgage banking business depends upon generating large volumes of loans. This produces profits from originations and increases the pool of mortgages being serviced. Large mortgage banking firms service well over 100,000 mortgages nationally. Because of the high costs of the short term loans, mortgage bankers use to develop originating funds, they have an incentive to generate mortgages as rapidly as possible to repay their loans quickly.

By specializing in FHA, and later in VA lending programs, mortgage bankers have become the major lenders for these types of loans. In 1950, mortgage bankers made less than thirty percent of all FHA loans, but by 1973, they accounted for more than seventy percent of all FHA loans.[109] Prior to the 1960s, FHA avoided innercity areas and FHA lending was used primarily to stimulate the sale of new homes. Developers learned to use mortgage bankers to supply the mortgages on the homes they built. Mortgage bankers, in turn, sought out good relationships with developers because these developments were places where they could expect to make a high volume of sales in a short time. After FHA changed its underwriting and encouraged the use of FHA lending in innercity areas, mortgage bankers took advantage of their specialization in these loans to become the largest lenders in urban areas. Conventional lenders generally did not make many FHA loans and found it difficult to deal with the red tape involved in FHA loans.

When Congress created the special subsidized loan programs, which had even more red tape, mortgage bankers, and not conventional lenders became the primary lenders under these programs. At the same time, in 1968, the Federal National Mortgage Association first developed its auction system. This system was especially suited to the operations of mortgage bankers. Specific commitments to purchase a pool of mortgages at a specified date facilitated calculations of the losses due to selling at the stated discount rate. Mortgage bankers could better determine the points (origination fees) to charge in order to make a profit. However, setting a specified time when a pool of mortgages had to be sold put added pressure on mortgage bankers to generate loans quickly. Many mortgage banking firms began to set quotas for their lending officers.

The increased role of the Federal National Mortgage Association was particularly important to the role mortgage bankers have played in innercity lending. Although the Federal Housing Administration had changed its underwriting policies, traditional participants in the secondary market for FHA mortgages, such as mutual savings banks and life insurance companies, did not want to purchase innercity loans. Life insurance companies, which had been a particularly important purchaser from mortgage bankers, were especially conservative. Life insurance companies were in the process of switching from home loans to investments in commercial developments. In addition, the willingness to purchase any FHA or VA loan without underwriting standards of its own made the Federal National Mortgage Association the perfect buyer of innercity FHA and VA loans.

The incentives which have drawn mortgage bankers into the home lending market are not necessarily conducive to sound lending or responsible servicing of loans. Mortgage bankers make profits on high volumes of originations. This does not encourage careful underwriting, especially when the loans are completely insured or are guaranteed. Second, mortgage bankers make money from servicing but the less servicing they do for their fee, the more money they will make. The servicing fee is set as a percentage of the outstanding balance of the mortgage. As the mortgage is paid off the fee declines and there is less incentive to provide all the necessary or desirable services.

The mortgage banking industry is characterized by some other features which do not encourage sound servicing. Mortgage bankers borrow the funds they need for lending. Generally, they have very little capital of their own. Thus, when short term-interest rates rise rapidly their profits drop off rapidly and they have few reserves to fall back on. The overall profits are also affected by another side of their operations. Most mortgage banking firms also serve as local correspondents for institutional investors making loans on commercial real estate. Mortgage banking firms help to negotiate these loans and receive fees for placing these loans and for servicing them. When economic conditions cause a slowdown and a slump in commercial developments, mortgage bankers can be stuck with a lot of expenses for loans which have not materialized or they may have servicing problems with their commercial loans.

It appears that when these economic conditions reduce the profits of mortgage bankers, they respond by reducing servicing.[110] In 1975, FNMA looked at the servicing of fifty-six mortgage lenders and concluded that:

> Personalized, effective and prudent servicing too often was the exception rather than the rule.[111]

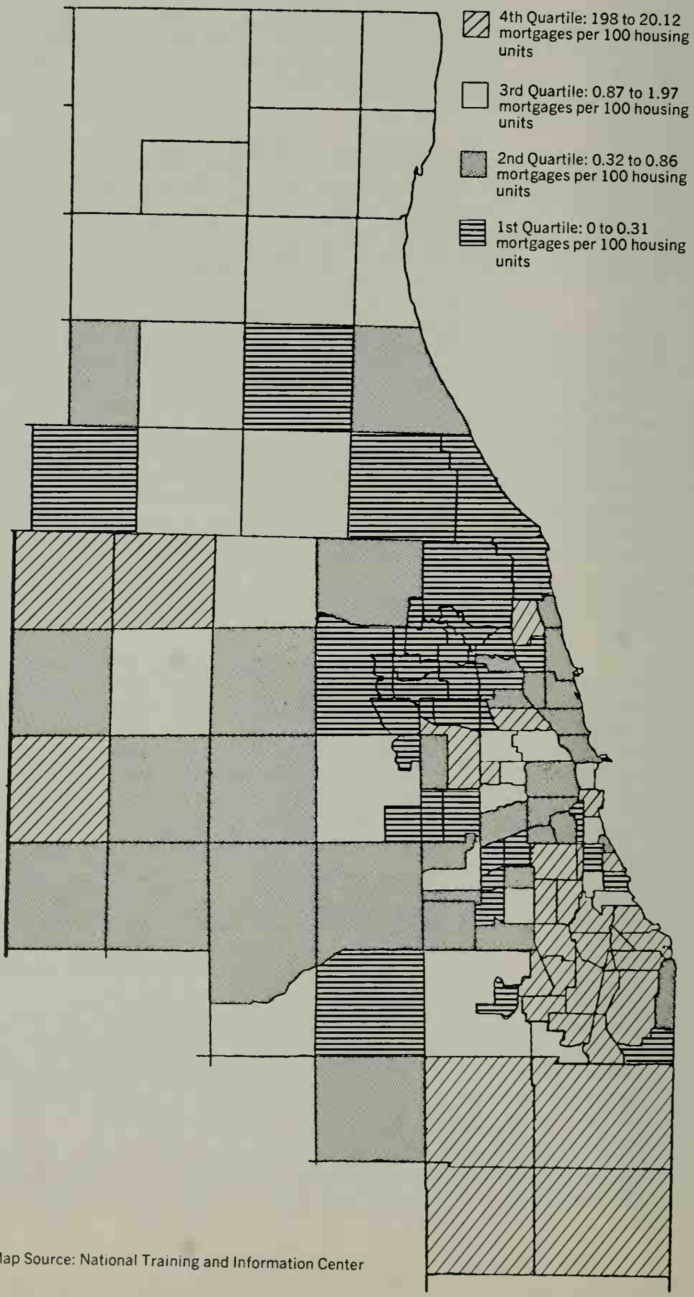
This condition was largely the result of economic pressures which caused mortgage banking firms to cut back on servicing. The report continued:

> The irony of the decision to reduce servicing expenses through cutbacks, layoffs, etc. is that the economic climate which fostered these austerity measures is the same climate that necessitates the need for increased servicing efforts. The seemingly 'pared to the bone' servicing budgets of several mortgage servicers come at a time when most servicers should be increasing collection and counseling staffs to deal effectively with the increasing number of deserving mortgagors who are delinquent and in need of relief provisions available from all mortgage lenders.[112]

Information on the default and foreclosure rates of FHA loans made by mortgage bankers as opposed to FHA loans made by other lending institutions suggests that incentives for profit have produced poor underwriting as well as poor servicing. A detailed report on the mortgage banking industry by the Center for Community Change states:

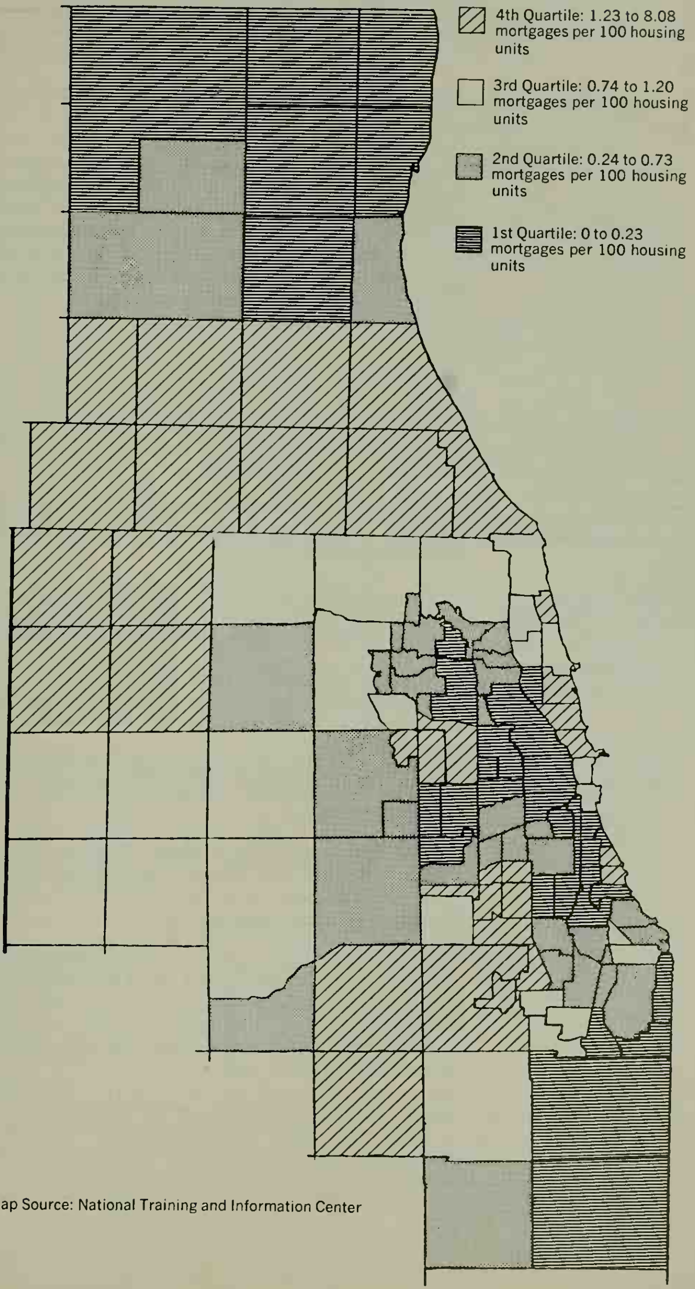
> Figures collected by HUD from 1970-75 show that the foreclosure rate on FHA loans for mortgage bankers was twice that of banks, Savings and Loans, and savings banks. A 1975 Baltimore study found that, for the FHA loans originated in 1970 and 1971, mortgage bankers averaged a 7.7 percent rate of foreclosure vs. a 1.8 percent rate for savings and loans.
>
> Data on FHA foreclosures in relation to serious defaults reveal the extent to which a lender is practicing forebearance—giving the borrower time to work out his problems or 'recast' the loan.

Map 3: F.H.A. mortgages serviced by 31 mortgages bankers during 1976 in the Chicago Metropolitan Area (per 100 units)


▨ 4th Quartile: 198 to 20.12 mortgages per 100 housing units
☐ 3rd Quartile: 0.87 to 1.97 mortgages per 100 housing units
▩ 2nd Quartile: 0.32 to 0.86 mortgages per 100 housing units
▤ 1st Quartile: 0 to 0.31 mortgages per 100 housing units

Map Source: National Training and Information Center

Map 4: Conventional Mortgages during 1976 in the Chicago Metropolitan Area (per 100 units)


▨ 4th Quartile: 1.23 to 8.08 mortgages per 100 housing units
☐ 3rd Quartile: 0.74 to 1.20 mortgages per 100 housing units
░ 2nd Quartile: 0.24 to 0.73 mortgages per 100 housing units
▤ 1st Quartile: 0 to 0.23 mortgages per 100 housing units

Map Source: National Training and Information Center

> National figures show that mortgage lenders foreclosed more than twice as often (71 vs 31 percent) on serious defaults as other FHA lenders. For a specific area of Philadelphia, it was found that mortgage service companies had an average foreclosure-to-default rate four times higher than that of depository institutions making FHA loans.[113]

Disinvestment and Abandonment of Multi-Family Apartment Buildings

One of the greatest unmet needs that results from the neighborhood economic policy vacuum is the ever-growing disinvestment and eventual abandonment of larger apartment buildings. In New York City alone, the number of occupied apartments buildings falling under city ownership because of landlord abandonment or tax defaults is expected to triple by mid-1980. The total could reach 15,000 fully or partly occupied buildings housing 75,000 families by the summer of 1980. This compares with 5,300 buildings and about 30,000 families at the end of 1978.[114]

These abandoned apartment buildings in New York and in neighborhoods throughout our cities are frequently the only housing available to lower income and minority people. Existing federal programs are not only limited by their funding allocation, but are limited by the portion of these programs allotted to new construction.

The National Commission on Neighborhoods has seen four areas of concern in relation to the improvement of rental housing for low and moderate income people:

1. Conventional credit and insurance redlining of multi-family buildings must be a priority of existing laws, such as the Community Reinvestment Act, and of future reinvestment laws and regulations.

2. It must be acknowledged that continued and increased subsidies for lower income renters must be available in order that existing multi-family buildings can be rehabilitated for the benefit of lower income people.

3. More experimental programs must be developed in an effort to develop greater direction for the rehabilitation and maintenance of existing multi-family housing.

4. Community-initiated self-help efforts, such as tenant management and coops, which are more common in neighborhoods most severely hit by long-term disinvestment, must be given greater support and assistance from federal, state, and local governments.

There are examples in every city, though few, of strategies that have worked. There is one prominent example of a financial institution attending to the problem of both multi-family and commercial investment. The South Shore National Bank in Chicago was purchased by a group of investors to make it a community development bank. The new owners of the bank began their reinvestment efforts with a series of studies to examine the disinvestment patterns in sectors of the community.[115] Researchers for the bank chose 32 blocks in the South Shore community and examined all sales and lending activity on the 742 properties on these blocks from 1950 to 1974. This sample included over 150 buildings with six or more units. Most of these buildings had more than sixteen units. In addition, all tax records on the buildings were examined for the last seven years of this period.

For the multi-family buildings, they found that life insurance companies were the largest mortgage holders in 1950. However, by the 1960s, life insurance companies held relatively few mortgages and property owners turned to commercial banks and savings and loan associations for financing. In the 1970s, the community changed from a white to a predominantly black area and financing for most multi-family properties was provided by individuals through trust deeds rather than by financial institutions.

While there were few foreclosures by 1974, tax records indicated that 54 buildings throughout the South Shore area had tax delinquency problems dating back three years or more. This accounted for ten percent of the entire housing stock of the South Shore. Examinations of the income and expense statements of several of the buildings showed that the management of these buildings was often less than admirable. Problems due to lack of financing and high insurance rates had contributed to severe disinvestment. As the financial situation worsened, owners stopped paying taxes and did not maintain the buildings.

The problems revealed in the analysis by the South Shore National Bank are a neglected aspect of neighborhood decline. The larger share of abandoned housing units is in multi-family buildings.

There is a growing effort in many urban areas for tenants to assume ownership and operation of these buildings as cooperative housing for low income people. A special study done for the National Commission on Neighborhoods reveals that most tenant management operations have a very limited success.[116] Nonprofit groups using tenant management to reduce costs are commonly the landlord of last resort. Tenants typically do not have the resources and skills to carry out many routine maintenance operations.

Multi-family buildings represent a unique problem for housing policy. They are investments and only secondarily a means of providing shelter. The process of buying, selling, and refinancing at high interest rates leads to increased rents. As buildings age, they are less attractive tax shelters and investments. Owners who plan to sell within a few years often defer improvements and repairs to maximize profits.

The Department of Housing and Urban Development attempted to provide housing for low and moderate income households through FHA programs that reduced the mortgage costs on new or substantially rehabilitated buildings. Investors were drawn into new building development by the lure of huge tax shelters. Many of the development projects grossly underestimated expenses and property taxes. Increasingly, owners have defaulted on their mortgages.

The Department of Housing and Urban Development still considers these properties potentially viable. Foreclosures have been avoided at almost any cost. However, HUD's own internal task force reports that only 2,000 of the 6,700 Section 236 and 221 (d)3 developments are financially sound.[117] In many cases, the buildings no longer provide housing for low or moderate income people. In other cases, abandonment and demolition of these buildings contributes to neighborhood blight.

Commercial disinvestment is another critical concern at the local level. The South Shore National Bank was unable to complete its attempts to trace the financial history of all the properties on its main commercial strip. However, the substantial amount of work that was done indicated that commercial establishments have great difficulty getting conventional financing. Surveys verified that increasingly, businesses which opened up in the neighborhood were those which required the very least amount of capital. Business people found it impossible to borrow funds for inventories or to establish or expand a business. This problem is particularly serious since a market study of the area showed a need for businesses requiring large capital investments.[118]

The District of Columbia Neighborhood Reinvestment Commission traced the levels of Small Business Administration (SBA) loans as an indication of commercial banks' participation in commercial lending.[119] Data on increases in bank deposits were compared to increases in SBA loan programs. While the smaller banks seemed to be investing in SBA programs, the largest banks had much poorer records.

Commercial and industrial activities are the heart of a neighborhood's economy. Far too little effort has been made to understand the local economy and to tailor lending programs to suit local commercial needs. In the South Shore area, local businesses now have a local bank working continuously with them on their needs and problems. The South Shore Bank provides the same kind of service which large commercial banks provide for preferred business customers. In most older neighborhoods, business people have no such banking partner in planning the growth and maintenance of the local economy's commercial sector.

The Department of Housing and Urban Development (HUD)

HUD is not the only federal agency which is involved in programs affecting the neighborhood economy. However, HUD is the agency which has the most specific obligation to aid in community development. HUD has a statutory obligation to act as the lead agency in the enforcement of affirmative efforts to eliminate racial discrimination in housing. Given the role which discrimination has played in neighborhood decline, this alone makes HUD's equal opportunity activities of prime interest to neighborhood policy. Finally, HUD does represent the Federal government's major policies and programs to provide decent shelter for moderate and lower income groups. HUD is the single most important agency affecting the ability of lower-income groups to participate in the housing market of an economically viable neighborhood. Finally, HUD's goals, resources and operating practices are representative of the wider range of government programs designed to solve the problems of community decline.

A. HUD's Conflicting Goals

HUD's own goals represent the deep internal conflicts among the many federal policies which relate to urban and neighborhood development. On the one hand, HUD is the primary agency charged with seeing that the nation's housing production goals are reached. HUD devotes a considerable amount of time to evaluating, designing, reviewing and monitoring progress toward the nation's housing production goals.

On the other hand, HUD is also designated as the lead agency in carrying out federal programs and policies to maintain and rebuild our nation's older and declining neighborhoods. As our economic analysis of neighborhood and regional economies points out, these goals are not necessarily compatible. If HUD succeeds in meeting production goals, it is likely to contribute to continued decline of older neighborhoods.

In 1973, before Senate hearings on HUD's FHA programs, urban geographer Brian Berry graphically illustrated this conflict as it applied to the City of Chicago:

> The suburbs have created 175,000 new housing units in excess of the rate of demand. This permitted very rapid decentralization of the white community from the central city into suburbia and through a filtering mechanism, the transfer of over 125,000 housing units in the central city from white to black occupancy, at a time also when an additional 27,000 new housing units, half of which were supported by federal funding, were being created within the central city for black occupancy.
>
> One consequence of this was the abandonment, the net loss of 60,000 housing units . . . within the traditional black residential areas of the central city.[120]

B. HUD's Limited Resources

One would have to admit at the beginning that HUD's resources to meet either of these major goals are severely limited. It is tax law and the general supply of mortgage money which have the greatest influence in the overall rate of new housing production. Also, HUD's resources for providing subsidies for moderate and lower income households barely begin to meet the levels of need. In an absolute sense, HUD's estimated annual expenditure for Fiscal Year 1978—$8.8 billion—seems to be large. But in relationship to the capital in the private sector, it represents an extremely small resource, about equal to the assets of one major regional bank.

While HUD has very limited resources for direct investment, many of its resources, like the FHA insurance programs, are able to apply small budgets towards encouraging private financial institutions to provide substantial funds in the form of mortgage credit or other investments. The ability to use small amounts of public money to produce much larger private commitments is a prime example of what is called "leveraging". Successful leveraging is the key to most HUD programs. The careful use of leveraging can allow HUD's limited funds to stimulate major investments from the private sector. Unfortunately, for residents of older neighborhoods, HUD has generally chosen or has been directed by Congress to use its resources primarily for stimulating new construction. Indeed, one of the recurring themes which neighborhood groups have brought to the National Commission on Neighborhoods is not that HUD should do more to help, but HUD should do less to harm.

C. Whose Interests Are Served by the Major HUD Programs?

When FHA was created, it was designed to stimulate the home-building industry. For thirty years, its support of housing production and the interests of the construction industry were not questioned. Although FHA insurance programs allowed more people to buy homes, the real clients of FHA were the homebuilders and lenders. Over this time, the directors of FHA always came from the mortgage banking or housing development industries. Legislation affecting FHA has been the subject of intense lobbying by the mortgage banking and home-building industries. It has been clear that FHA served the interests of these private institutions, but it was assumed their interests also served the interests of the general population.

When legislation was being drafted in 1968 to create major new FHA programs to provide rental housing and homeownership for moderate and lower income households, it did not seem odd to Congress or FHA (by then part of HUD) that this legislation was drafted by the lobbyist for the homebuilders or that the major method of providing housing for the poor would create tax shelters and mortgage subsidies for housing developers. Thus, when FHA was designed to help the poor by serving the homebuilding interests, there was little resistance.

When the urban renewal program was developed, the federal government envisioned itself acting as a partner with local government to assist in the clearance and rebuilding of areas presumed to be blighted. There was no question that the local government was the client for whom this program was developed. With the Model Cities program, the rise of citizen participation and a changing of HUD's major urban goals from production to preservation and rehabilitation, the residents of older neighborhoods, minorities, and low and moderate income people were declared the clients. This shift in emphasis in goals has not been accompanied by a shift in the structure of HUD's programs.

HUD's major programs of community development, home ownership, and shelter for low and moderate income groups are still delivered directly to lenders, developers and local governments rather than directly to the newly designated clients. There are hardly any situations where HUD deals directly with neighborhood residents unless they take on the corporate identity of lenders and developers or the status of elected officials. Under this structure, HUD must presume that by serving the interests of developers, lenders and local governments they are also, necessarily, serving the interests of their clients.

Certainly, it is conceivable that there are times and places where the interests of lenders, developers, and local governments are perfectly compatible with those of neighborhood residents, minorities and low and moderate income groups. On the other hand, there is nothing in the economic self-interest of lenders and developers which insures that their interests and those of HUD's clients are the same. As economic corporations, lenders are concerned with risks and rates of return and developers are concerned with levels of production, tax shelters, and cash flow from their developments. Local governments may have a legal obligation to serve the needs of their residents, but as a practical matter (which has been made all too clear by the record of urban renewal), they may believe that the best way to deal with the poor is to attempt to eliminate them by removing them.

It is reasonable to assume that the lobbying organizations for developers, lenders and local governments identify and seek to enhance the self-interest of their institutions by influencing federal policies and legislation. It is also natural to expect that as HUD works with the institution on a daily basis, HUD officials develop a sympathy for the problems and attitudes of developers, lenders, and local government. The development of these sympathic relationships is even more natural when we consider that these institutions are able to place their members in the top administrative positions of the HUD offices which deal with them. In the case of FHA programs, the top HUD officials are drawn largely from the ranks of lenders, developers, and real estate lawyers. In the case of the community development programs, the highest HUD official is taken from local government.

Thus, lenders, developers, and local governments are able to shape HUD's policies all the way from the legislative stage to implementation and daily working procedures. One can understand how, under their influence, it is easy for HUD to confuse these lenders, developers and local government officials with its actual clients. It is ironic that HUD has often complained that citizens always attack HUD and never work with HUD in a positive way. In a formal and legal sense, HUD's clients have no legitimacy within the agency unless they take extraordinary actions and force a meeting or unless they gain legal access by filing a federal suit against HUD. It is not surprising, then, that under these conditions, HUD views its clients, all too often, as advocates rather than as partners.

D. HUD's Housing Assistance and Community Development Programs

The Department of Housing and Urban Development's resources are very limited. Two basic principles must be employed in allocation of these funds. First, funds must be targeted to those who will benefit the most and who need subsidies and services. Second, funds must be leveraged using a small amount of HUD funds to bring in much larger amounts of other government funds or private investment. These principles are two sides of the same coin. Both represent guidelines which insure that funds will not be wasted on those who can do without them while also attempting to meet critical needs.

1. Section 8 Housing Programs

The Section 8 housing program is HUD's major means of providing decent shelter for lower income people. It provides cash payments directly to landlords to make up for the difference between 25 percent of a household's income and the fair market rent. The major part of HUD's housing assistance funds are in this single rental program. The number of households which need rental assistance continues to exceed the capability of the Section 8 program.

Twenty percent of HUD's Section 8 funds are set aside to subsidize distressed 221(d)3 and 236 projects. This approach does provide housing for lower income people. Addressing the failure of previous programs requires two forms of subsidy and minimizes the leverage of such programs. The thirty percent of Section 8 funds set aside for new construction help to insure that lower income people are not priced out of the market in newly developing areas. However, the funds do not always seem to be used in the most efficient way to provide the maximum housing and leverage of private investments. The funds might provide support for more households if they were used to rehabilitate existing housing.

The rents in new or luxury buildings are the highest in the housing market. Thus, each assisted household receives a maximum amount of Section 8 funds. The Section 8 allocations provide a set level of funds rather than a set level of units to be assisted at any cost. The greater the costs of subsidized units, the fewer households served.

Section 8 programs for existing housing have been criticized for the fact that there simply aren't enough funds. Less than 50 percent of HUD's Section 8 money is set aside for existing housing. In many locations, the program seems to work well. However, in several of the larger cities where neighborhood decay and abandonment are most serious, Section 8 funds are not meeting needs. Data for the first years of the program show that 63% of the residents of all of the residents of all existing Section 8 units were people living in single family homes or row houses.[121] These funds are obviously not adequately meeting the critical need to maintain larger apartment buildings which are the litmus of trends in so many older neighborhoods.

Research by the Urban Institute seems to suggest that Section 8 funds have not encouraged landlords to make many repairs.[122] The average expenditure for improvements and repairs on existing units is only $285, which is less than the typical cost of painting a one bedroom unit. The average increases in rent indicate that landlords can pay for these improvements in slightly more than one year. This does not suggest that Section 8 has encouraged landlords to make substantial investments in the improvement and maintenance of their properties.

2. Section 312 Rehabilitation Loans

The Section 312 Rehabilitation Loan program provides funds for owners to rehabilitate their properties. This program is a critical piece of the overall strategy to maintain existing properties. The main criticism of the program is that the funds have not been targeted well enough. A Government Accounting Office report on the use of funds in Chicago revealed that more than half of the funds were used by middle and upper income persons to fix up buildings in one single fashionable neighborhood by the lakefront.[123] Overall, HUD's recordkeeping on this program has been insufficient to make a determination of exactly who benefits from the 312 subsidies.

The 1978 Housing Act specifically targets these funds for moderate and lower income people and requires better accounting. Without a guarantee of 312 funds for rehabilitation, moderate income people have great difficulty in obtaining a mortgage loan. A portion of these funds are set aside for homesteading experiments with abandoned multi-family buildings. The 1968 Housing Act requires targeting to insure that Section 312 loans are used for multi-family properties.

3. Community Development Block Grant Funds (CDBG)

The key issues in HUD's approval of the uses of community development funds are again targeting and leveraging. Proposed community development regulations in the fall of 1977 required a 75 percent low and moderate income benefit test. Later modifications of this requirement in the monitoring process stipulated a 51 percent low and moderate income benefit test. Recently, it has been discovered that HUD now interprets the revised 51 percent requirement to apply only to the original 75 percent requirement. This means HUD currently requires only a 31 percent low and moderate income benefit test when examining total CD expenditures.

Several reviews of the first year CD program allocations, including a major monitoring effort by the Brookings Institution, indicated that housing and physical improvement programs frequently received less funding than service programs.[124]

For the first three years of CD, the ten largest recipients averaged only ten percent of budgeted expenditures for housing rehabilitation. For instance, New York spent only 45.8 percent; Boston 44.4 percent; San Francisco 29.6 percent; and Newark 42.8 percent. Actual units rehabilitated for the same period is even more discouraging. By this time, New York City had a goal of rehabilitating 2,525 units, but only 734 units were completed. The levels at which local governments have actually expended money further favors services over housing and physical improvement programs.

From Year I (Fiscal Year 1975) through Year III (Fiscal Year 1977) actual expenditures for services represented the largest category in New York City where 34 percent of all funds were for services. In Chicago, over 40 percent of expenditures have been for services. In Binghamton, New York, almost 55 percent of expenditures were for services. While there is considerable variation from one city to another, these levels are not atypical for large cities. On the other hand, New York City spent 28.3 percent on housing and 4.3 percent on physical improvements. Chicago spent only 11.3 percent on housing and 12.6 percent on physical improvements, while Binghamton spent 15 percent and 14.1 percent on these categories, respectively.

Through the same three years of the program, CD rehabilitation goals in comparison to rehabilitation needs are even more discouraging. New York City's average annual rehab completions (649 units) is less than one percent of the city's rehab need of 877,411 units. Chicago's average annual rehab completions (172 units) and average annual rehab goals (1,436 units) is less than one percent of the city's rehab need of 162,600 units. Even in smaller cities, rehab production has been dismal. Binghamton's average annual rehab completions (15 units) are less than one percent of the city's rehab need of 5,201 units. Waterloo's average annual rehab goal (61 units) is less than one percent of the city's rehab need of 12,500 units.

Community development funds have been used to benefit middle and upper income people rather than the lower income groups for whom the program was intended. A Department of Housing and Urban Development study suggests that 50 to 55 percent of the funds spent have benefited low and moderate income people.[125] This figure assumes that funds spent in a lower income area always benefit people in direct proportion to the population of the area. A study made by the National Association of Housing and Redevelopment Officials concludes that only 14 percent of all funds actually benefited low and moderate income areas.[126]

An August 30, 1978 report by the General Accounting Office concluded that HUD's current CD monitoring program is so incomplete that "HUD will not have adequate performance data for its 1978 report to the Congress." Specifically, GAO found that HUD has little information on CD expenditures beyond planned programs, and that HUD does not adequately test or verify the accuracy of what little data it does receive.

It is difficult to estimate CD benefits because HUD does not require very detailed reporting or accounting. In a letter to the Director of the HUD Regional Office in Chicago, a lawyer for an organization filing a complaint about Chicago's CD performance requested information on the beneficiaries of several key housing programs. The Regional Director replied that noy only did he not have the data, but he did not believe it existed in any public records anywhere.[127]

These studies and cases demonstrate that there needs to be developed a much more accurate and detailed performance monitoring system for CD in order to ascertain whether expenditures meet the HUD regulation requiring 51 percent low and moderate income benefit. Emphasis in CD reporting needs to be placed on the actual use and results of expenditures. Also, new mechanisms must be implemented which will allow HUD greater abilities to test and verify reported CD results and to determine the success of targeting.

In spite of the poor performance of many local governments, HUD has continued funding in almost every case. HUD has placed conditions on funding, but has been reluctant to use its powers to reduce or cut off funding. At the National Commission on Neighborhoods Issue Forum on HUD programs in October of 1978, HUD officials claimed that they could not use their power to cut off funds because only the recipients of the program would suffer. They claim that cities would not be swayed, and in fact, many of them would just as soon be rid of the funds and obligations that come with them. However, it was pointed out by the administrator of one major CD program that this position revealed HUD's inability to understand just how much local governments rely on these funds. If HUD does understand the importance of these funds to local governments, then this represents another case where HUD views the local government as the real client to be protected. In either case, HUD's impotence is self-imposed.

4. The Urban Development Action Grant Program (UDAG)

The Urban Development Action Grant Program (UDAG) provides public subsidies to stimulate private investment in neighborhood, commercial, and industrial activities. The key question is whether the funds actually stimulate or "leverage" development which would not take place otherwise. Another key question is whether these developments actually benefit low and moderate income people. Will UDAG become a new urban renewal program which removes the present residents and replaces them with wealthier residents?

At this point, no UDAG projects have been completed. But there have been three rounds of awards made. Analysis of the projects which have been accepted raises serious doubts about HUD's ability to leverage or target effectively. There are three categories of UDAGs—commercial, industrial, and neighborhood. According to UDAG regulation, there was to be a "reasonable balance" of funding among these categories. However, through the first three rounds of awards, 52.9 percent has gone to 95 commercial projects, 30.0 percent to 97 industrial projects, and 17.1 percent for 49 neighborhood and housing UDAGs.

Based on these figures (and considering that they include almost a third of next year's large city UDAG money, which has already been committed), a firm "one third, one third, one third" funding regulation seems necessary in order to insure that neighborhoods actually receive their "reasonable balance" of UDAG funding.

These figures for the three rounds are estimates revised by the National Commission on Neighborhoods to take account of the fact that HUD had qualified as neighborhood UDAGs $11,850,000 worth of commercial projects in the second round of large city awards. Examples of these "neighborhood" projects include: a luxury condominium, office and specialty shop development adjacent to a lower income neighborhood in Cambridge, Massachusetts; a project enabling a Detroit car dealer to purchase his leased facilities; and the conversion of industrial space into Soho-style lofts in Chicago's Printer's Row. The apartments in this latter project will probably rent for $500 to $600 a month and contribute to gentrification, but HUD stated the project would "provide new, low cost housing stock".

A definition of "neighborhood" UDAGs needs to be developed. In a July 21, 1978 letter to Secretary Harris, National Commission on Neighborhoods Chairman Joseph F. Timilty said that the Commission would exclude from a neighborhood definition projects which accelerate the process of gentrification in a neighborhood or which were located in the Central Business District. In response, Secretary Harris wrote on November 20, 1978 that HUD includes as neighborhood UDAGs all types of projects (commercial, industrial or neighborhood) which are located in a neighborhood or which construct or rehabilitate housing. The effects of UDAGs on gentrification and displacement can only be determined with impact statements on low and moderate income persons which are newly required under the 1978 CD amendments. Regulations for these impact statements are to be published by late February 1979.

The most questionable use of funds has been for hotel-related commercial developments. Almost two-thirds (66.1 percent) of the funds for commercial UDAGs are allocated to hotels and hotel-related projects. If these were a UDAG category of their own, they would account for 34.5 percent of all UDAG awards, a category more than twice as large as neighborhood UDAG awards. These hotels represent the largest and best known national, and often international corporations. In St. Louis, a hotel UDAG is drawing on a special tax abatement program which allows for a tax freeze for 10 years and a 50 percent reduction in taxes for another 15 years. In addition, the land is being sold to the developers by the city at well below the market rate. On top of this, it is argued, the project needs the substantial UDAG grant of $10.5 million in order to make it work. It is hard to imagine that corporations which draw on broad international sources of capital need all those subsidies in St. Louis to do what they are doing in other cities here and abroad all on their own. It is hard to believe that all the powers of the city and all these subsidies are needed to attract an international corporation when members of the Jeff-Vander-Lou community development corporation in St. Louis were able to get a shoe company to locate in their neighborhood without a single dollar in tax cuts or subsidy.

These commercial and industrial UDAGs are supposed to provide employment for low and moderate income residents. In the case of the hotels, HUD claims that there will be many unskilled service jobs created. While this might be true, it is not at all clear that such jobs represent a meaningful opportunity for lower income people to move up the ladder. Careful scrutiny must be given to the number and quality of jobs actually created by UDAG projects. Requiring a statement on each project's impact on low and moderate income people will serve to answer such questions. Requiring a benefit test as under the CD would also improve targeting.

The low funding level for neighborhood UDAGs is not unexpected. The UDAG application process requires a sophisticated understanding of development financing. It requires binding letters of commitment from the developers and lenders who will be involved. One wonders how HUD imagined that community groups would have the technical resources to develop such proposals. One city estimated its application costs at $80,000.

In Denver, a local community group conceived a UDAG project and submitted it in a citywide competition. When this proposal was selected as the city's first choice, the city government provided the technical expertise and contacts which brought in a developer and lender to put the total package together. The local residents were involved in the conceptual stages, and will have a development corporation to manage some aspects of the developments. However, they do not control the development. Although their original idea has been turned into HUD's largest neighborhood UDAG award, neighborhood residents are still uneasy. All the decision making is in the hands of the city government and a developer with no past ties to the community.

Without the technical assistance necessary to provide for the extensive planning and development costs of a UDAG proposal, HUD cannot expect neighborhood UDAGs to develop from within communities. Typically, neighborhood UDAG projects which are submitted reflect old plans which have been on the shelf for years waiting for funding or proposals basically conceived of and planned by developers, lenders, and local governments who may or may not represent the interests of the neighborhood residents. Because all UDAG applications come from local governments, community groups which are not on good terms with city hall have virtually no chance of obtaining a UDAG for their own projects. Once again, HUD has devised a program which serves the interests of local government, lenders, and developers before serving the interests of its real clients.

In response to requests for community groups HUD has contracted a firm to provide neighborhood UDAG technical assistance. However, experiences to date with this firm have not been all positive. Wider publicity and greater prior notice concerning seminars are needed. This is especially important now that HUD is issuing more requests for proposals from other firms to provide technical assistance to neighborhood groups. Furthermore, considering the wide range of input required for the development of a grassroots neighborhood project application, more lead time for the submission of such applications is required.

E. The Department of Housing and Urban Development's Responsibility to its Lower Income, Minority, and Neighborhood Clients

We have examined HUD's role in its housing assistance and community development programs. This entails specifying program objectives for local governments and monitoring their performance. In the Federal Housing Administration (FHA) programs, its role is more complex. The Department of Housing and Urban Development is directly involved in regulating the mortgage lenders using FHA programs. It must also develop policies to manage properties it receives as a result of foreclosure under FHA insurance programs. In each case, HUD's obligations are to protect the interests of the homebuyers or neighborhoods where programs are operating.

The history of HUD's activities has been one of reluctance to meet its statutory and regulatory obligations. Communities have fought against this inaction and against HUD programs which directly contribute to blight and decay. HUD is unwilling to take a hard stance against developers, lenders, and local government when their activities do not serve lower income people, minorities, and neighborhoods. In many instances, HUD's client groups are able to suggest remedies for the harmful effects of programs. However, the inability of HUD to effectively administer the remedial policies has meant that clients soon find themselves confronting HUD again. In some cases, community groups are fighting the harmful side effects of what were intended to be remedies.

Four cases will serve to illustrate these points. First, there is HUD's response to the needs of families who were sold homes with structural and other major defects. Second, there is HUD's handling of the problems of poor underwriting and servicing of Federal Housing Administration loans. Third, there is HUD's response to mortgage counseling programs. Finally, there is HUD's role in the problem of housing abandonment.

1. Section 518 Programs for Repayment of Expenses to Repair Defective Homes

During the height of FHA scandals in the early 1970s, Congress responded to the needs of the thousands of homeowners who had been sold homes with major defects. Congress created Section 518(a) of the National Housing Act to compensate homeowners for certain structural and other defects in new homes which they purchased. Sections 518(b) and (d) provide compensation for purchasers of existing homes for two different time periods, ending in August of 1976.

Although there have been many thousands of claims filed for the 518(a) program, HUD has approved only some items in about 700 cases. In the 518(b) and (d) programs, the record is equally bad. Nationwide about 96,000 cases or 79 percent of all claims under these programs have been rejected. One of the major problems is that HUD officials who originally certified the property as sound must review their own decisions and reverse them. Moreover, HUD resisted congressional appropriations to run the program. The official in charge of the program wrote to his superior in HUD complaining that the program makes HUD look bad.[128]

Legal assistance attorneys representing abused homeowners filed suits in two different cities.[129] Because of pressure from National People's Action, the Department of Housing and Urban Development has agreed to hire the American Institute of Architects to reopen all of these cases.

2. Regulation of Federal Housing Administration (FHA) lenders and the Assignment Program

HUD has the authority to regulate lenders which originate and service FHA loans. Three-quarters of all FHA loans are originated by mortgage bankers.

HUD has shown indifference to the abuses of FHA programs. It did not establish a central process for reviewing complaints and disciplining mortgage companies until 1975.[130] Until 1976, it had no regulations concerning the way mortgage companies service FHA loans.[131] HUD's only regulation of mortgage lenders up to that time required that lenders meet certain minimal levels of capitalization, and that they have an office in the local areas where they serviced mortgages.

Responding to the scandal in 1975, HUD established a Mortgagee Review Board to hear and investigate complaints and discipline mortgage companies. All members of this Board are HUD officials and meetings are secret. Public watchdog organizations and government watchdog agencies have both criticized the Board for its ineffectual performance. The Board has been criticized for handing out minimal sanctions for major violations of HUD regulations and guidelines in organizations and servicing.[132]

In a 1973 study by HUD on the causes of foreclosure, it was found that mortgage lenders failed to offer delinquent and defaulted homeowners reasonable relief and opportunity to reinstate the mortgage. Mortgage companies filed as soon as possible for a foreclosure in order to get this mortgage off their books, and potentially make some profits on legal fees in the foreclosure process.[133] In 1973, a class action suit was brought against HUD for allowing these servicing abuses to continue.[134] After three years of delays, HUD agreed to settle the case out of court. The federal judge hearing the case threatened to put the Secretary of HUD in jail for contempt of court in failing to produce documents.

HUD agreed to create regulations requiring proper servicing by mortgage companies and to establish an extensive mortgage assignment program. Under this program, HUD can take an assignment of a mortgage (i.e. buy the mortgage from the lender) in order to avoid a foreclosure. The mortgage can be saved by giving the borrower temporary relief. The old mortgage and the back payments may be packaged into a single new mortgage.

The lawyers who handled the case have monitored the program. From the beginning, they were able to document allegations of violations by 15 of HUD's 75 field offices and by HUD's central office. The field office violations included using unauthorized standards to decide on assignments; failing to provide homeowners with proper notices and failure to require lenders to provide proper notices of the program; and failure to allow people the relief (forebearance) programs allowed under the program.[135]

The Central Office sent out notices to the field offices which suggested that HUD had set a quota of ten percent acceptance of assignment applications. In addition, regulations were drafted which clearly violated the court settlement. It was stated at the beginning of these regulations that homeowners could not use the fact that mortgage companies had improperly serviced their mortgage as a legal defense against foreclosure. As a matter of principle, this makes the servicing regulations meaningless. The Central Office also failed to allow the reprocessing of cases which were improperly denied acceptance.[136]

For well over a year, attorneys met with HUD trying to work out a solution. The national acceptance rate has remained at about 16 percent since the program began. However, throughout the first six months of the program, more than a dozen of HUD's 75 field offices had not taken a single assignment. By January of 1978, HUD had processed 26,290 applications and accepted only 4,215 assignments.

At one point, HUD established a special training program for 13 offices with low acceptance rates. But after the program, six of them had poorer records than before.[137] HUD responded to claims that the acceptance rate should be higher by citing data to show that the default rate for mortgages on assignment was almost 18 percent. This default rate could well be a product of HUD's servicing, which has been considerably worse than the servicing of the lenders. In some offices, for example, once a mortgage was accepted, a conference with the homeowner to work out the payment plan would not take place for several months. Many homeowners were sent several sets of monthly payment cards, some from field offices about which cards were correct and where homeowners were to mail their monthly payments.

While HUD regulations required mortgage servicers to have a local office, for the first two years of the assignment program HUD serviced all of its mortgages from a computer in Washington.

In the spring of 1978, after over a year of negotiations and the threat of continuing court action, HUD finally sent out a team to investigate practices in fourteen offices. In all fourteen offices, HUD found substantial violations of the program along the lines defined by the Legal Assistance lawyers at the first meeting in April of 1977 and in letters and memos before that time. While HUD has now agreed to the reprocessing of denied applications and some other reforms in servicing, other major issues remain unresolved. The plaintiff class may have to seek action to correct abuses in HUD's mortgage assignment program which was intended to remedy abuses of the FHA single family loan programs.

3. Counseling Programs

Counseling programs assist people prior to purchasing an FHA home or when they are delinquent or in default on their own payments.

Since HUD had been less than aggressive in disciplining FHA approved lenders as a means of protecting borrowers, one would imagine that they would at least have been supporting counseling programs to assist people prior to purchasing a home on FHA and afterwards, when they are delinquent or in default in their payments. But HUD has had a record of being unsympathetic to counseling programs.

Several of HUD's counseling programs were offered on an experimental basis. To evaluate these programs, HUD developed an analysis to weigh the costs of running the program, against the benefits due to savings mortgages from foreclosure. The experimental counseling programs were for subsidized mortgage programs. The analysis took account of the fact that whenever a mortgage was saved, HUD had to continue to pay the subsidy.[138] Under these rules, successful counseling programs didn't rate very well in terms of costs to HUD.

HUD has made only token funding commitments to counseling programs. Moreover, HUD rules for providing funds to counseling agencies have little relationship to established counseling practices. At the National Commission on Neighborhood's issue forum on HUD, a salient point was made. A HUD official from Milwaukee told how he went to the homes of people whose mortgages were in default and helped them work out repayment plans to save the mortgage. Other representatives of counseling agencies in Pennsylvania also commented on how valuable it is to work with people in their homes. However, HUD regulations restrict funding to organizations which do all their counseling at a central office where homebuyers are most ill at ease.

4. HUD's Role in the Problem of Abandonment

The Department of Housing and Urban Development has directly contributed to abandonment through its policy requiring foreclosed FHA properties to be vacant when delivered to HUD. Properties remain vacant while in HUD's inventory, awaiting disposal. Properties remain in HUD's inventory an average of 22 months. During this time, the properties stand vacant in the neighborhood and are subject to vandalism and arson. In neighborhoods where FHA sales are concentrated, HUD's policy enforces abandonment and blight. At one time, HUD had over 26,000 homes in its inventory in Detroit alone.

The Metropolitan Area Housing Alliance in Chicago filed suit in federal court to challenge HUD's regulations. In the fall of 1977, HUD informed their field offices that they would allow occupied delivery. However, HUD never developed regulations to implement this policy. The field offices have adopted all kinds of individual policies. Some continued vacant delivery which relieves local offices of having to interact with tenants in these properties. The HUD field offices have complained to HUD's Central Office. Now HUD is considering changing back to the vacant delivery policy rather than implementing the occupied delivery policy.

A return to the old policy will not only again be a major contributor to more abandonment, but will likely mean high losses on houses which are vacant and vandalized. In the year prior to HUD adopting the occupied delivery policy, HUD averaged a loss of $9,341 per house. In the Chicago area, the average loss was $14,025.

Federal Housing Administration properties represent a small portion of all abandoned properties. The Department of Housing and Urban Development has undertaken several studies to develop programs to deal with its own abandoned properties. To address the larger issue of abandonment, HUD has developed models to predict declining and abandoned neighborhoods.

The General Accounting Office (GAO) produced the first major government report on local efforts to solve the problem of abandoned buildings.[139] The GAO investigated the scale of the problem and the remedies being used in 149 major cities. The report concludes that most local governments do not even know the scale of the problem.

In developing recommendations about which remedies seemed best, the GAO turned to the federal government's own research—*The Dynamics of Neighborhood Change,* developed by HUD. Guided by this model, the GAO made the unfortunate recommendation that HUD should develop strategies based on a neighborhood's stage of decline. Accordingly, GAO recommended demolition rather than rehabilitation in neighborhoods labeled "clearly declining."

The GAO report is valuable because it cites HUD for failing to use its resources to investigate the issue or to use its leverage on cities to require the development of local strategies. But in a larger sense, the GAO report is also instructive in indicating how HUD's role in promoting models of decline has often had more impact than its role of promoting community development.

5. The Problems Continue

As a result of HUD's unwillingness to act as an advocate on behalf of its clients, low and moderate income people, FHA programs continue to be a major factor in the decline of urban neighborhoods. HUD does not analyze the data it has on FHA loans for any local areas. The smallest breakdowns are usually for an entire HUD office service area. In some cases, citywide data are tabulated. Neighborhood groups have been seeking more detailed data, but HUD has continued to deny that it can be produced. However, when community organizations from the National People's Action actually occupied the Office of the Secretary of HUD in 1978, the exact computer files on defaults and foreclosures they had been requesting were produced in a matter of hours.

An analysis of these files, which tabulated data on FHA loans by zip code and by individual lender, shows the extreme concentration of FHA defaults and foreclosures in a few innercity neighborhoods across the country. According to information provided to HUD by the mortgage lenders, over 26,000 families are facing foreclosure. Over 61,000 families were in default. Only 6.2 percent of the families in default are in the process of assignment. Very few families are receiving counseling.

These imminent foreclosures are heavily concentrated. Nationally, 74 zip codes account for more than one quarter of all the defaults. For the entire area served by the Chicago HUD office, more than half of the defaults are in just seven zip codes. For Detroit, they are in nine zip codes. For the St. Louis office more than half the defaults are in five zip codes, six for the Camden, New Jersey office, nine for the Philadelphia office and eleven for the Cleveland office. If and when these mortgages are foreclosed, many of them will be added to the present inventory of almost 27,000 HUD-owned abandoned properties.

What are the Keys to Successful Reinvestment which Benefit Existing Residents, Minorities, and Lower Income Households?

One thing which the National Commission on Neighborhoods has learned in its examination of successful reinvestment efforts is that programs don't solve problems—people do. Virtually all programs which have been developed for reinvestment could be used either to benefit existing residents, minorities, and lower income households, or used to displace these people in favor of higher income people.

A. Gentrification and Displacement

Displacement takes place when higher income residents move in and displace existing lower income residents. An older neighborhood may become a fashionable place to live because of its location or the architectural appeal of its housing stock. Gentrification refers to the movement of the gentry class back into older neighborhoods. Gentrification can result from reinvestment efforts which improve the desirability of a neighborhood so much the existing residents are priced out of the market.

In general, reinvestment efforts have this potential. There is a tendency for lenders and some local governments to approach neighborhood revitalization by encouraging gentrification. In this process, lenders feel more comfortable investing because they are dealing with the same populations they have dealt with in the suburbs. Local governments believe that these higher income people will improve the city's tax base.

In Chicago, the city has sold $100 million in revenue bonds, which are, in effect, subsidized by their tax-exempt nature. These bonds are used to provide low interest loans for high income people moving into the city. In this case, gentrification is the stated goal of the program.

Because the income limit under this revenue bond mortgage program was $40,000 adjusted gross income, any income which was "tax sheltered" was not counted.

Over half of the resulting $83 million in mortgages went to the buyers of condominiums with 102 mortgages in a single condominium development on the city's lakefront. The net gain of middle-class residents to the city was slight. Of 1,317 loan recipients, 677 had not formerly lived in Chicago, but 472 families who sold homes left the city.

Even a targeted program like the Section 8 rental assistance program can be used for gentrification. There has been testimony before the National Commission on Neighborhoods meetings in Chicago and several other cities that landlords in areas which are potentially desirable to middle and upper income people will use the Section 8 program to speculate on property development. A developer can purchase an older building, make some repairs and rent it out under Section 8 to guarantee full occupancy and maximum income. When the property becomes desirable for higher income residents or for condominium conversion, the owner does not renew the leases of the Section 8 tenants. The building is eventually converted for use by higher income households.

The lesson is that programs in and of themselves do not solve the problems. Programs take on the goals of people who use them to serve their own interests.

B. Preconditions for Successful Reinvestment

Reinvestment which benefits existing residents of a neighborhood, minorities, and lower income people must meet these preconditions: access to resources, protection from harm, and control over the processes that effect their lives. Control and access to resources are the two sides of self-reliance. To be self-reliant, individuals and neighborhoods must have access to the same resources as everyone else. To take action, individuals and neighborhoods must share control of the institutions and processes which effect their lives. There must also be protection from the harmful effects of actions taken by government and the private sector.

1. Access to Credit and Capital

The primary focus of reinvestment has been on insuring that neighborhoods have fair access to credit and capital. No neighborhood can survive if cut off from credit for the purchase and improvement of its homes and businesses. Neighborhoods need access to capital in the form of private investments and public funds for municipal improvements and services.

2. Access to Information

A key element in the reinvestment movement has been disclosure of information on the activities of private corporations and financial institutions. The release of this type of information has allowed community groups to flesh out the roles of the different institutions in the management and flow of credit. Information does not always prove an argument, but it frequently makes it possible to take effective action. In a bureaucratic society, information is power.

3. Access to Technical Assistance

In the complex world of finance, neighborhood organizations need access to technical expertise in order to decode the language of economists and financial institutions for everyone to understand. Technical assistance is also a necessary resource for community organizations trying to develop their own reinvestment strategies and programs. Adequate access to technical assistance in the process of real estate development could make it possible for neighborhood groups to develop their own UDAGs.

4. Access to Research and Development Funds

If neighborhoods are indeed the "national treasures" which Congress claims, then they deserve a share of research and development money. Moreover, these funds must be channeled directly to community organizations and local businesses and institutions. It is clear that those interests which now have access to the research and development funds are not asking the same questions as neighborhood residents. Governments want to know what is going on in the neighborhood while neighborhood residents want to know what is going on in the government.

Private sector research is typically invested in large scale technologies designed to serve the needs of national and international industries. In the communications area, for example, research is oriented toward facilitating communication between large centralized commercial centers. Neighborhood-sponsored research would focus on using advanced communications to spread out commercial employment centers in neighborhoods where they could serve as a local economic base.

5. Protection from Harm

Protections are usually in the form of prohibitions against improper actions rather than prescriptions for proper behavior. As such, they are more universal and less tailored to local conditions. That is why the National Commission on Neighborhoods and community organizations have been so persistent about the need for strong CRA regulations and other laws which prohibit discrimination and redlining. This is an area where the government can play a valuable role with a minimal expense. To the extent that prohibitions against neighborhood discrimination increase the flows of credit, technical skills and resources, they are virtually cost free leveraging.

6. Control

One of the major forms of protection from harm is control over the institutions and processes which effect the neighborhood.

Government agencies and private institutions are reluctant to disperse power, allow neighborhoods control over key resources, or give them equal partnership in the reinvestment process. However, there are cases where local governments have assigned and dispersed control of such resources as capital improvement budgets to the community level.

Often the issue is raised about what organization or institution really represents a neighborhood. Governments and private institutions like to be able to deal with a discrete entity which has some legal status and clear responsibility for its actions. Community development corporations often help in neighborhood development precisely because they take on a legal status which makes it possible for local governments and private institutions to deal with them in an official capacity. However, neighborhoods should not be required to have a legal or corporate identity in order to share power.

Governments and private institutions have found many unique and creative ways to deal with neighborhoods and their residents. Reinvestment efforts can facilitate this process by providing neighborhoods access to certain key resources which governments or private institutions value. The more these resources are placed directly in the hands of neighborhood residents and groups, the more control neighborhoods can command, and the more equal will be their participation in the development process.

One of the great attractions of suburbia is local control. Where this can be created within a large city, it may represent another asset in the city's ability to compete with suburban development.

In the community development process, different neighborhoods are actually pitted against each other in attempts to get the city government to allocate funds to one neighborhood over another. If federal funding formulas allocated funds by zip code or census tract, rather than by city, communities would be able to exercise more control. A different approach would be to disburse funds to local areas on a first come, first serve basis until the funds run out. If more funds went to one area over another, the pattern of feast or famine competition for funds would still be eliminated.

Neighborhoods need creative ways to control programs and policies which effect their viability and future. The federal government is moving in exactly the opposite direction. Congress is restricting the funds which eventually flow into local neighborhoods to assure that they are controlled by local government units.

Establishing a Reinvestment Process

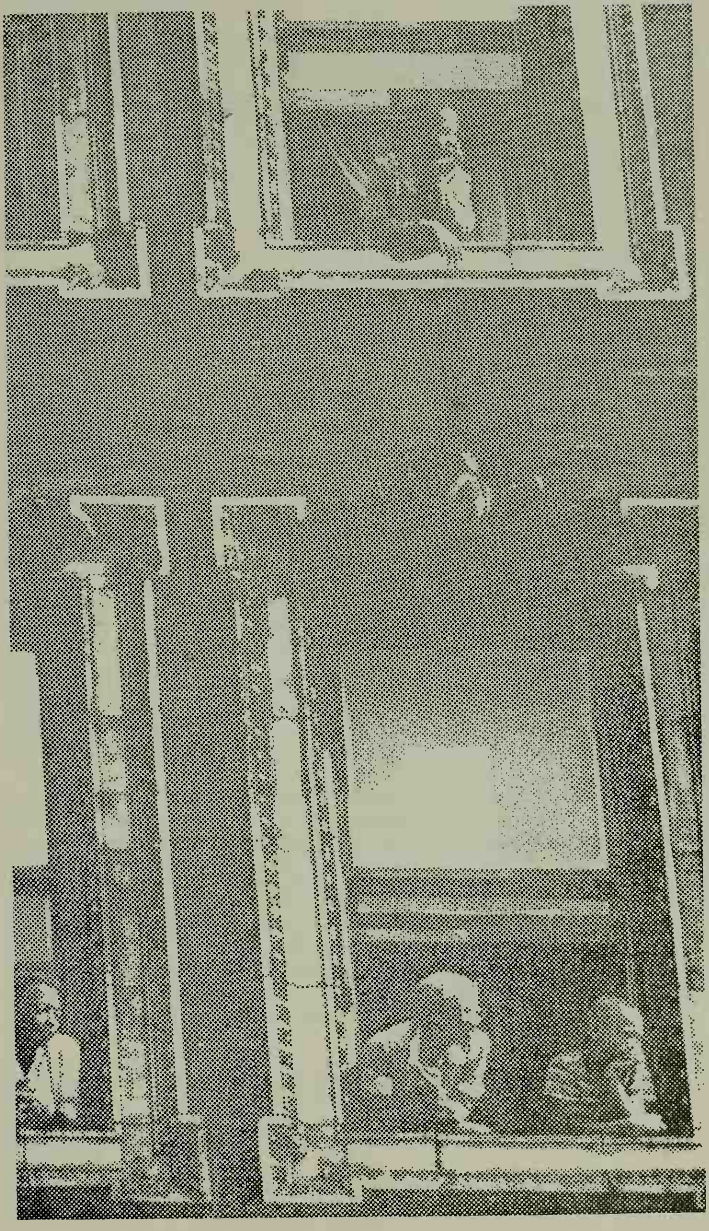
Once the preconditions of reinvestment are established, there must be some process of managing reinvestment. In structurally disinvested neighborhoods, the normal relationships between the residents, the financial institutions, the private sector, and the government have broken down. Reinvestment must renew these formal and informal relationships. The Neighborhood Housing Service Program of the Neighborhood Reinvestment Corporation represents an excellent example of re-establishing this set of relationships.

As a reinvestment program, Neighborhood Housing Services (NHS) sets up a high risk pool for home loans and encourages mortgage lending and home improvement loans in the areas which it serves. This is not particularly unique. But the process used to accomplish this is unique. NHS programs are set up through mutual agreements between neighborhood residents, financial institutions, and the local government. All must commit themselves to the reinvestment programs. They must work collectively on the problems of the local community. Often the most important impacts of an NHS program are not the specific NHS loan programs, but activities which are spun off from this mutual working relationship. In many cases, problems are identified which cannot be handled through NHS programs, so ad hoc activities are set up to deal with them.

The Neighborhood Housing Service required that citizens, financial institutions, and the local government agree to work together before an NHS can be established. This limits reinvestment to areas where all three participants are willing to work together from the start. Often, this has meant locating in neighborhoods with relatively minor disinvestment problems. It should be possible for any one of these participants to initiate the process in hopes of drawing in the other participants. It is quite possible that some reinvestment programs could take place without the full cooperation of lenders or the government. However, in cases where it is the community residents who have not been included in the initial effort, special attention must be given to providing full protection from the possible harm of these alleged reinvestment efforts. In cases where the lenders or government are not part of the initial effort, special emphasis must be on insuring that the residents have access to resources and control so that self-reliance becomes a viable option.

The establishment of these mutual relationships with each participant making commitments and sharing control is what the National Commission on Neighborhoods has meant by its oft-repeated call for "partnership with parity."

Neighborhood Economic Development



Economic Development

Introduction

Cities and regions which were at one time the source of wealth for the country today are in jeopardy. The reasons for this dramatic shift in the relative wealth of cities are many. Since World War II, the national economy has experienced two profound demographic changes in the composition of American society—the post-war baby boom and the evolution of a far larger population of senior citizens. Furthermore, trends in the organization of the national economy have compounded the racial and demographic transformations of cities by favoring new regions and the suburban expanses surrounding central cities.

Contrary to the dominant myth of the economic orthodoxy, the system is not always self-corrrecting. Racial justice will not be achieved through the unfettered workings of the free market; nor will the decline of central cities and the growth of distressed neighborhoods be arrested without government intervention. Economic development is a term which can be taken to mean the conscious, public intervention into the economy for the sake of minimizing the effects of or eliminating the causes of harmful distortions in economic behavior. In the past, economic development efforts have taken many forms. For example, income can be transferred to people lacking it so that levels of consumption and demand can be maintained. Investment capital can be accumulated through the intervention of the state so that the productive capacity of the economy can be rebuilt or supported. Managerial skills, accompanied by various levels of technological application, can be provided. Public intervention can be designed to provide specific benefits to designated groups within the economy.

Low and moderate income urban neighborhoods face problems not at all lessened by policies of benign neglect, many of which have in fact been imposed on the neighborhoods by federal policies which discriminate against them. They are a less developed country inside America. Neighborhoods in transition from white to black experience unique problems. For the most part, there are no institutions which mediate this transition. Instead, in those neighborhoods where the transition involves low income blacks, people, capital, and public support all flee.

Exclusion from the mainstream of economic life has been the historical burden of racial minorities in this country. In bust or in boom, racial minorities either suffer the effects of a recession or depression more heavily, or they share far less fully in the benefits of a healthy economy. The discrimination of past American history persists, despite all our best efforts. Many, perhaps too many, of the problems of urban neighborhoods result from the simple fact that many urban areas have undergone a profound racial transformation, from white to black and Hispanic. The National Commission on Neighborhoods and its Task Force on Economic Development recognizes that a vital precondition for revitalizing urban neighborhoods is to overcome discrimination and bias.

And exclusion from economic well-being extends far beyond racial minorities. Neighborhoods populated by the elderly, even though the residents may be stable, suffer from the economics of aging. The elderly, living on fixed incomes, have little leeway to support home improvements or a neighborhood shopping area.

The evolution of contemporary transportation systems, especially as they rely upon the automobile, disperses manufacturing employment outside of the central city and supports the morning inflow and evening outflow of suburban commuters. Public transportation, particularly that which would efficiently move people from low and moderate income neighborhoods in the cities out to jobs in the suburbs, hardly exists.

Property ownership is virtually impossible in a low income neighborhood and difficult to maintain in moderate income neighborhoods. Absentee landlords operate housing units for the profits they can gouge out of them, ignoring the improvements necessary to make them livable.

The need for public intervention in aid of low and moderate income neighborhoods is urgent. Yet economic development policies in the United States generally ignore the needs of people in declining communities. Policies of the Federal Housing Administration have compounded the problems of cities by designing a strategy for relieving overcrowding which emphasizes new construction and badly engages the market for existing housing. The emphasis on new construction weighted federal policy in favor of suburban growth at the expense of central cities.

With an alarming frequency, the public dollars that do flow to urban areas across the nation only minimally assist poor and declining neighborhoods. Far too often federal policies of urban aid have fostered dependencies between cities and the federal government, rather than investments of public monies in economic development. Authority granted to local governments often is not used in the interest of poor people. Federal development programs for people may become local fiscal assistance programs.

The federal government is not alone in this regard. State and local governments also fail to address the needs of urban neighborhoods and poor people. Five states have established urban revitalization strategies, but only two sponsor programs that explicitly support urban neighborhood economic development. State tax incentives encourage businesses in older regions to relocate in the newer regional economies. Even states which have comprehensive urban strategies do not know how many jobs their policies actually produce, where the jobs created are located, what types of jobs are made available or who gets these jobs. State housing finance agencies subsidize suburban housing for people fleeing declining central cities. Tax subsidies undermine existing businesses and other property owners who must pay increased taxes to compensate for the losses due to subsidized development. In turn, the rise in the property tax rate drives homeowners and small businesses from the city. This further loss of the tax base undermines local economies and creates even greater dependency on federal relief.

A Strategy For Arresting Decline and Disinvestment In Neighborhoods

Neighborhoods and their residents need not be sacrificed upon the altar of economic rationality or to public neglect. Federal policies can redirect resources into low and moderate income neighborhoods. The National Commission on Neighborhoods has identified a number of neighborhood economic development strategies which successfully forge partnerships between neighborhood organizations and public economic development

A. Community Full Employment: An Agenda For Federal Economic Planning

Low and moderate income people need nothing so desperately as they need jobs. No task is more important to the management of the urban and neighborhood economy than achieving a level of real full employment, though combating inflation is of equal importance nationally. As is the case with all unequal distributions of wealth in situations of economic malfunctions, low and moderate income neighborhoods must absorb the worst effects of all increases in unemployment and in the cost of living. The National Commission on Neighborhoods supports a federal economic planning strategy which would concentrate on creating jobs and economic vitality in the most distressed neighborhoods, while minimizing the risks of inflation. A report on this policy from the National Center for Economic Alternatives entitled *Community Full Employment: Towards A New Framework For Community Economic Development,* contends that the federal government can effectively and efficiently intervene in the national economy to create full employment economies in low and moderate income neighborhoods.

In summary, a community full employment approach would have economic policy managers look at the problem of unemployment from the bottom up. That is, full employment on the national level would be achieved by explicit strategies to create new jobs where these new jobs are most needed—in distressed neighborhoods. Full employment does not consist of a simple percentage figure that applies to the whole country, but rather of a general neighborhood prosperity resulting from successfully investing in economic activity in all areas with high unemployment.

Community full employment requires a series of policy directives to guide economic planning. There are seven major principles of the community full employment approach.

First, a community full employment strategy is designed to use *existing* resources in new ways. These policy guidelines do not rely upon *increasing* public spending.

Second, jobs are the most important component in determining a community's overall health. Providing jobs to a community goes a long way towards alleviating other problems that may exist. Without jobs, a community has no future.

Third, policy must be oriented towards long term economic development. Temporary relief measures alleviate the immediate problems of communities and their citizens, but they do not solve the underlying problems. The creation of a solid, productive economic base is required.

Fourth, the policy must confront the issue of inflation. The fear of inflation represents one of the greatest obstacles to extensive federal intervention on behalf of localities and neighborhoods.

Fifth, the policy must target public intervention. Targeting to communities in need increases the effectiveness of the intervention and decreases the inflationary impact since surplus capacity and labor are utilized.

Sixth, the policy must create new jobs. To meet the needs of all distressed communities, new economic activity will have to be stimulated. Targeting will have to be linked with economic stimulation.

Seventh, the policy must allow for a wide variety of investments. No one financial technique will solve the problems of people in poor and declining neighborhoods. In poor economies, public investments must be established first, and be used to leverage capital from the private sector.

1. Utilizing Federal Procurement For Community Employment

"Federal procurement is the single most important tool the federal government has to stimulate private sector job growth in stagnant areas such as inner cities."[1] The idea of targeting federal procurement to stimulate depressed economies is not new. During the Korean War, the federal government established Defense Manpower Policy Number Four (DMP-4) to give preference to suppliers located in labor surplus areas.

Thirty-eight other federal programs utilize their procurement procedures to attain specified social and economic goals.[2]

On March 27, 1978, and again on August 11 of the same year, President Carter announced his intention to expand the use of procurement for targeted job development. An Executive Order directed that "Executive agencies shall emphasize procurement set-asides in labor surplus areas in order to strengthen our Nation's economy."[3] President Carter also announced his intention to expand the use of DMP-4 (now known as DMP-4A) and directed the General Services Administration to develop specific targets for each agency. The Department of Defense was directed to implement a program to target procurement to high unemployment areas.[4] Currently, only 11% of federal procurement is let through competitive bidding.[5]

Targeted procurement may add marginal costs to public purchasing. Yet, this small price increase may stimulate local economies in such a way as to offset these price differentials. The Northeast-Midwest Research Institute points out that:

> If a government agency permitted a price differential of one percent on contracts totalling $1 billion, the increased costs to the government would be worth $10 million. (This is) a small price to pay to fund $1 billion worth of business into stagnant economies. No other government program, whether it is welfare payments or public service employment, realizes such enormous gains on its investments.[6]

There are obstacles to targeting procurement contracts to labor surplus areas. The Maybank Amendment prohibits any differential payments for defense contracts; until last year, it applied to civilian contracts as well. Representative John LaFalce of New York introduced legislation to repeal the Maybank Amendment, which passed. However, subsequent defense appropriations restored the Maybank principle to procurement for the Department of Defense. The Minority Business Development Amendments of 1978, which called for improvements in the Small Business Administration's 8(a) program, directed the president to conduct a review of the impact of the repeal of the Maybank Amendment.

Another obstacle to targeted federal procurement is that no one agency has authority to implement DMP-4A. Procurement officials in individual agencies are more interested in their areas of responsibility and expect to be evaluated on their performance in those areas rather than on the implementation of DMP-4A.

2. Job Training For Community Full Employment

In the late 1970's, unemployment due to cyclical shifts in the national economy has lessened. Yet, structural unemployment and underemployment are at even higher levels, hitting especially hard in poor and declining neighborhoods. The Comprehensive Employment and Training Act was passed in the early 1970s as a counter-cyclical employment program for people displaced by the recession. At the same time, CETA was intended to be a jobs program for the structurally unemployed.

There have been few linkages between CETA programs and local economic development programs. These potential linkages should be made explicit by the federal government. For example, HUD's Urban Development Action Grant funds should be tied directly to a city's willingness to use CETA as a job training program. Department of Labor planning grants should be given to cities preparing Comprehensive Economic Development Strategies for Commerce's Economic Development Administration, so that the cities could conduct economic forecasts of the type of labor that will be available there over the next five, ten, or twenty years and of the kinds of industries that will be developing nationally over the same period. The Comprehensive Economic Development Strategy should then include a section on job training to provide for the appropriate mix of CETA programs with incoming jobs and government sponsored efforts to attract these jobs.

3. Planning For Community Full Employment

Few mechanisms exist to hold states and cities accountable for the federal funds they expend for economic development. The Community Development Block Grant program of the Department of Housing and Urban Development has not established official monitoring procedures to determine how much of the program actually does benefit low and moderate income people. Furthermore, the Urban Development Action Grant program does not include any explicit standard for the type of jobs created by either neighborhood projects or commercial and industrial ventures. HUD maintains that at least half the jobs generated by a UDAG project will be jobs open to low and moderate income people of limited education; this standard should be written into HUD regulations. HUD should institute a mechanism to count the jobs actually created by a UDAG project and should set aside planning or evaluation funds to enable cities to do follow-up work.

The Department of Commerce is developing a potentially useful targeting mechanism called Comprehensive Economic Development Strategies (CEDS). The policy statement for CEDS claimed that the program can do much to encourage cities to focus their resources: "The emphasis in CEDS will be to better fulfill EDA's (The Economic Development Administration's) mission to create jobs and increase income for the long term unemployed and disadvantaged, including minorities."[7]

This assumes that cities will actually inventory the needs of their existing residents and businesses, and that they have the capability to judge what businesses to attract and how to attract them without mortgaging the city's future in tax abatements. It assumes that CETA is being used as part of an economic development strategy. It assumes that businesses will advise a city of their financial situation and of any plans to leave the locality. It also assumes that cities have a commitment to working with neighborhoods, minorities and those with poor and moderate incomes, minority enterprises, and community development corporations.

In 1979, the legislation authorizing the Economic Development Administration will be before Congress for renewal. It is still uncertain whether CEDS will be introduced as legislation or if the program will be subjected to further review. CEDS can be the appropriate mechanism for the planning of a Community Full Employment Strategy. However, its legislative enactment must include provisions to assure priorities on employment opportunities for low and moderate income city residents, and an emphasis on neighborhood economic development and neighborhood-based organizations as means of attaining these strategies.

4. Financing Community Full Employment Strategies

Most of the capital programs for urban economic development are located within the Department of Commerce's Economic Development Administration (EDA) and the Department of Housing and Urban Development's Office of Community Planning and Development (CPD). EDA programs include Title I loan guarantees, business development loans, public works programs, and the Title IX program for communities experienceing long term economic deterioration. CPD programs include Community Development Block Grants and Urban Development Action Grants.

The Carter Administration's recognition of the economic values of reinvestment, as opposed to new investment, was signalled in its urban policy proposal to establish a "Labor Intensive Public Works" (LIPW) program. The proposal would have been differentiated from traditional public works programs in that it would have promoted conservation rather than new construction of public facilities. EDA proposed this program at the same time that a decision was made not to refund the Local Public Works programs that encouraged new construction.

More importantly, the LIPW program would have been targeted to the hiring of the structurally unemployed. Half of the private construction jobs would have been targeted to the long term unemployed from low income families. Another notable aspect of the LIPW program was its identification of sub units of local government as being targeted areas of distress. "Pockets of Poverty" were defined as "a community or neighborhood of at least 10,000 persons with an above average unemployment rate located within a city or county having 50,000 or more people and a lower than average unemployment rate."[8] This provision would have targeted public works money in healthy, growing cities to those neighborhoods that are not healthy or growing.

The LIPW program failed in Congress. Construction unions pointed out that they had members who, by working one or two weeks out of four would not be deemed "long term unemployed". The provision for targeting the long term unemployed was weakened probably to a greater degree than necessary to meet the unions' legitimate concern. Cities objected to the lack of funding for the traditional new construction local public works program (even though $3.8 billion of local public works money would still be disbursed).

While current EDA programs do not include rigorous targeting criteria, there has been a general trend toward encouraging investment in distressed cities and neighborhoods. EDA's Title IX program authorizes assistance both to areas affected by severe, sudden distress such as major plant closings, and to areas which have suffered long term economic deterioration. The Title IX program is relatively new (it was established in 1975), but has been popular due to its flexibility. Title IX is currently being shifted from a primary emphasis on economic dislocation to a heightened concern with addressing long term deterioration or the structural problems of poor economies. In 1977, only 4.4 percent of the program was allocated for this purpose; in 1978 the figure increased to 30 percent.

The unavailability of capital is one of the problems faced by distressed neighborhoods. A development finance mechanism, such as the proposed National Development Bank, could direct money to capital short economies for long term economic investment. Such a mechanism should provide the resources that private institutions do not now invest, as well as add incentives for private banks and public institutions to make resources available through risk sharing plans, loan guarantees, and related arrangements.

A critical need in many distressed areas is the provision of management and technical assistance to developers. The experience of other development finance institutions indicates that this technical assistance is best provided by a separate entity.

Finally, a development finance institution will not have unlimited resources. Rigorous analysis must be devoted to project applications to determine the impact of the expenditures on the community. In the context of the community full employment strategy, this means that projects should be evaluated in terms of what jobs are created and retained, and for whom.

Problems with the supply of capital are not the only constraint on development. There also has to be an effective demand for such capital once it is available. Through the provision of technical and planning assistance, that demand can be stimulated. A development bank can assist in the planning and implementation of projects. Agencies such as Commerce and HUD can be enlisted to locate existing organizations with the actual or potential capacity to carry out programs in economic development.

The Commission is concerned that a centralized system of development finance lacks the flexibility to deal with constantly changing local economic conditions. A more regionally based banking system would have a greater capacity to address local economic problems because it would have familiarity with the area's needs and a stronger relationship with local communities. The Commission believes that a development finance system should emphasize flexible forms of project financing, provide technical assistance, and respond effectively to local economic problems and sudden dislocations such as plant closings. It should include strong criteria for targeted job creation.

5. Tax Policy for Community Full Employment

Federal tax programs operate from a top down macroeconomic standpoint. Congress determines that some types of investment need stimulus and tax credits are established for that purpose. Often these tax credits are applied neutrally in terms of location. Such neutral credits have actually spurred investment in new economies, away from center cities and neighborhoods. Roger Vaughan, Director of a Rand Corporation study entitled *Urban Impacts of Federal Policies*, concluded "Tax credits, applied without regional targeting, generally represent a subsidy to growth areas where the rate of increase in capital stock is large. . . the implicit temporary subsidy to capital therefore favors companies that are not in central cities."

The President's Urban Policy Statement, proposed an additional five percent credit for investment in rehabilitated structures. Although this would have targeted a tax credit for restoration of existing facilities, mainly in urban areas, the policy would have difficulties as part of a macroeconomic stimulus program. Individual neighborhoods are undergoing displacement of low and moderate income families by middle and upper income investors. An additional 5 percent investment tax credit applied indiscriminately might merely add to gentrification in these neighborhoods. In Baltimore, the Commission heard testimony from two community organizations in the Union Square area that historic preservationists have used commercial revitalization and the tax benefits of rehabilitating historic structures to drive up property rates and displace the low income people living in that neighborhood. The preservationists argued for extension of tax credits; the community organization representing the poor of Union Square opposed them.

Another objection to tax credits is that they encourage capital intensive investment as opposed to labor intensive activities. The Congressional Budget Office (CBO) suggests that a better approach may be a refundable tax credit equal to four percent of employer-paid social security taxes. Such a tax advantage would encourage labor-intensive businesses more likely to be found in central cities rather than the capital intensive manufacturing firms assisted by investment tax credits.[11]

"Federal Programs for Neighborhood Economic Development," a report submitted to the National Commission on Neighborhoods suggests that tax credits be made to investors willing to reinvest capital gains from large investments in small businesses short of equity capital. Provisions would have to assure that investment would not be directed into real estate speculation, possibly by requiring that the investment be held over a certain period of time. Other economists and the Casey Commission on Small Business Investment have recommended this approach.

A Congressional Research Service analysis of this proposal for the National Commission on Neighborhoods concluded that it would be ineffective. Many small businesses, especially neighborhood enterprises, are not incorporated. According to the Statistical Abstract in 1977, 85.4 percent of all businesses in 1974 had receipts of $100,000 or less. These corporations had 12.6 percent of the total receipts of these small businesses.[12] The lack of equity capital may not be the obstacle that prevents a small business from developing or expanding. It may also suffer from the comparative costs of doing business. Some enterprises do need equity, but local decision-making is a more appropriate method to make this judgment than a national tax credit program.

The question of targeting a tax credit to distressed areas was also considered. Without targeting, much of the investment created might be in suburban small businesses, inaccessible to the inner-city unemployed. With targeting, according to the Congressional Research Service, the increased rate of return would attract small business investors to these areas, but not necessarily new investors. It would stimulate economic development in distressed areas, but not necessarily new development. Rather, existing capital resources would be transferred.

There are also employment tax credits. An employer can receive employment tax credits when new employees are hired. Often, these credits are targeted to particular sectors of the unemployed such as the young, the long term unemployed, and the unemployed due to particular dislocations. As of yet, geographic targets have not been used.

One major benefit of employment tax credits is that subsidies of labor as opposed to capital are more direct in terms of achieving the goal of reduced unemployment. Studies have rated the cost of labor as a major factor in corporate location decisions. The availability of labor subsidies thus can have a greater impact on the private sector than capital subsidies.

Yet, employment tax credits also raise problems. Tax credits to spur employment of young people may bias employers against the hiring of older workers supporting families. Present employees could be dismissed in favor of new workers by a company seeking the tax credits. (Usually, there are precautions in the legislation to prohibit the latter practice.)

During public hearings in Cleveland, the Commission heard testimony calling for national legislation to prohibit local tax abatements. Such legislation might halt the indiscriminate use of abatements only at the cost of preventing effective and fair abatement programs, such as New York City's tax breaks for the Bedford Stuyvesant Corporation. Bedford Stuyvesant's community corporation needed an abatement to run its shopping and retail plaza at a profitable level. Tax abatements have also permitted community organizers and developers to build low and moderate income housing that otherwise would not have been built.

Of the various tax credits available, an employment tax credit would be the most effective tool in a community full employment context. Capital gains "roll over" provisions and investment tax credits at the national level may help individual neighborhoods in need only a little, or not at all — or may even finance businesses leaving for newer areas. National legislation should be developed to prevent indiscriminate tax abatements, especially those which merely transfer jobs from one locality to another.

B. Models of Neighborhood Economic Development and Federal Support

Because the public and private sector avoid investing in low and moderate income neighborhoods, alternative economic structures need to be built.

Some neighborhoods have managed to reverse the cycle of deterioration and stagnation by forging successful partnerships involving neighborhood interests, public economic development agencies, and public and private sources of investment. These communities evolved local economic structures which utilize the concept of community planned and controlled economic development as a solution to poverty, unemployment and the social and physical decay in depressed areas.

President Carter's Urban and Regional Policy Group stressed the importance of neighborhood organizations to the development process:

> "No urban policy can succeed if it ignores the views of neighborhood and voluntary groups and if it does not secure their continuous investment in varied neighborhood improvement efforts."

The National Commission on Neighborhoods identified five major approaches to economic development that people in poor and declining neighborhoods have utilized:

Community economic development focuses on creating ownership of and influence over economic resources flowing through a neighborhood. A community development corporation (CDC) of local residents may include housing, commerce and industry, human services, manpower development, and financial institutions.

Neighborhood commercial revitalization stresses partnerships between neighborhood residents, local merchants, and city governments for reinvestment in older neighborhood commercial districts. These partnerships are formalized through the establishment of local development corporations (LDCs), economic revitalization committees, or other corporate entities that provide financial, technical, and planning assistance to private entrepreneurs.

Minority business enterprise programs seek to create increased private business ownership among disadvantaged minorities. Many, although not all, of these ventures are operated in poor and declining neighborhoods. Capital and managerial expertise is provided to minority communities through government programs such as Minority Enterprise Small Business Investment Corporations (MESBICs) and Business Development Organizations (BDOs).

Cooperative economic development centers on efforts to acquire economic resources for savings, as opposed to profit making. Producer cooperatives, through which workers acquire ownership of their companies, are a possible strategy for retaining local businesses. Community Development Credit Unions are financial cooperatives utilized to reinvest neighborhood savings in neighborhood economies.

Appropriate technology seeks to match the economic resources of a community with corresponding means of production. The main asset of most poor neighborhoods is surplus labor. Appropriate technology utilizes industry that is labor-intensive, that stresses labor over machinery and capital. Weatherization and cellulose production are two examples of labor intensive, appropriate technology industries.

The Commission has reviewed evidence of successful neighborhood economic development in all five categories. The Commission will describe models of successful programs and then suggest how the agencies of the federal government can be restructured to support such programs.

1. Community Development Corporations

Fifteen thousand people sit in a Los Angeles barrio park, listening to Mexican musicians play favorite tunes near a senior citizens housing project that is a model of success. A black Boston entrepreneur drives his bulldozer through a building slated for demolition by his company. An Alaskan native chooses his month's supplies at a well-stocked community trading post. The daughter of a coal miner sews a high quality camping tent in a factory in the heart of Kentucky. A wire manufacturer, the largest employer in Harlem, avoids a scheduled closing and wins a huge contract with America's railroads. The common denominator is a Community Development Corporation, a unique organization capable of changing the economies of poor neighborhoods.

Community development corporations, or CDCs, are helping in many low income areas across America. Springing up in record numbers in the last five years, CDCs can be catalysts for the revitalization of areas deveastated by lack of business, an industrial base, or a community identity. Successful CDCs operate in rural and urban areas, serving "communities" as large as the State of Alaska or as small as a few square miles of an inner city ghetto. The CDC concept is flexible and adaptable enough to survive in the poorest neighborhoods and successful enough to be copied by Canada and Israel in their economic development efforts.

The idea of CDCs is not new. The first American colonial trading companies were based on an older, European CDC model. Throughout American history, community-owned enterprises flourished in New England, the South, and the Midwest. In the 1960s many of these organizational forms were adapted for use in low-income areas by pioneers such as Philadelphia's Leon Sullivan and New York's Franklin Thomas.

The key to the success of community development corporations is the flexibility of the model. Amid the diversity of Community Development Corporations, three characteristics essential to their success can be discerned: first, a corporate structure, with professional staff that includes planning and administrative personnel; second, community participation, ownership, and control; and third, a balanced program of business, community, and institutional development activities based on a long-range, comprehensive plan. Corporations of many different types operate as CDCs, but all CDCs have these three elements. The corporate structure of a CDC is one of its strengths; it can resist many of the forces which tear apart non-corporate entities in the poor community.

While most CDCs are nonprofit corporations, a significant number are for profit corporations, cooperative corporations, or other variations. The distinctions usually reflect relevant state laws, community sentiment, tax considerations, and the character of the development plan. The corporation employs a professional staff to prepare and execute the development plan. Once the original plan is drafted, the staff works on business and interim planning, as well as continual updating of the overall program. Other staff areas include administrative and managerial departments for the CDC itself, business and community development personnel to acquire and operate subsidiaries, and specific substantive departments such as housing or employment.

The East Los Angeles Community Union

CDCs offer a wide range of corporate structures including holding companies, subsidiary corporations, allied nonprofit corporations, and federations of other community organizations. The East Los Angeles Community Union (TELACU) is an example of a mature and diverse CDC. TELACU began as a project of the United Auto Workers Union in 1968 and became one of the successful CDCs in the country. The nonprofit CDC portion of TELACU is relatively small, since the subsidiaries are owned by the for-profit holding company—TELACU Industries. Even the planning staff has been incorporated as a separate profitmaking organization, the Community Research Group. TELACU's staff includes human resources (employment), social services, economic development and business development divisions. TELACU projects range from bi-weekly traditional music concerts bringing musicians from Mexico, to a $32 million industrial park replacing a departed rubber manufacturing plant, to a growing thrift and loan institution which reverses the usual cash flow in a low income neighborhood by opening branches in wealthy suburbs and bringing the funds back to the barrio.

Community participation is another cornerstone of the CDC concept. The neighborhood owns the CDC and directs its actions. The benefits of the CDC flow directly to the community. The planning and development which the CDC undertakes all have as their ultimate aim not profit, but community progress.

In their business activities, CDCs are like many other venture investment and management corporations, except for community control. The direction received from the community allows the CDC to forego some profits, for example, to gain a larger, community goal such as higher employment or management training for residents. Profits of subsidiaries are also recycled to the community on the basis of community needs rather than distributed as dividends.

Most CDCs issue some type of direct participation instrument, sometimes called stock (in for-profit corporations) or memberships (in nonprofit corporations). These members or stockholders share directly in the governing of the CDC, usually through election of the governing Board of Directors. In some cases, part of the Board is appointed by local organizations. Usually businessmen and local leaders are asked to be on the Board as well.

East Boston Community Development Corporation

The East Boston Community Development Corporation, located in an ethnic Italian section of Boston next to Logan International Airport, is an example of a for-profit CDC which issues stock to residents. Residents can buy a lifetime voting share of stock for a minimal price. The 9,000 outstanding shares of stock represent most of the families in the community. EBCDC elects its Board each year and the competition to win a seat on the Board is fierce. As a for-profit corporation, EBCDC could distribute its corporate profits to its shareholders, but instead uses them for community projects and future ventures. The popularity of participation in the CDC is based on the desire to do something for the community, as well as the prestige of working for a community institution.

The CDC concept envisions a carefully balanced mix of corporate activities. Following its development plan, a CDC will engage in business development, community development, and institutional development.

Unlike many single purpose agencies, a CDC conducts these programs simultaneously and in combination with each other. The coordination of programs allows the CDC to decrease duplication, to use each funding dollar for more impact at a lower cost, and to integrate the results of each project into the effects of other projects. For example, combining business and employment projects in a job training program will not only provide training at a lower cost (because part of the cost is taken over by the business), but will also provide a place for the trainee to find permanent employment in the private sector.

CDC business development activities fall into three major types: venture investment, venture management, and business assistance. The pattern of business development activities will be different for each CDC. In some cases, the CDC will concentrate only on venture investment in existing companies, leaving the entrepreneur to manage a newly revitalized operation. In other cases, the CDC will only buy and operate businesses whole, preferring to manage the business on its own, without partners. Specialized CDCs may just provide business development assistance to existing businesses, providing technical assistance and financial packaging. More often, however, the CDC uses a mix of all these operations, offering a combination of strategies to preserve or expand business opportunities in the neighborhood. CDCs look much like private venture investment and management companies, and with good reason. CDCs now send their business development staffs to the same schools and seminars that the private firms have always used.

Kentucky Highlands Investment Corporation
The Kentucky Highlands Investment Corporation is the most successful example of the venture investment strategy of investing in existing companies and leaving the entrepreneur to manage the operation. This CDC is located in the heart of the poorest Congressional District of Appalachian Kentucky. KHIC provides capital to successful entrepreneurs in a ten-county area of Kentucky. Its ventures include the premier racing kayak boat works in America, a successful outdoor camping equipment company, a high quality toy company, and several smaller firms. KHIC is also establishing a small business investment company to expand its investment activities.

Community Enterprise Development Corporation
The Community Enterprise Development Corporation of Anchorage, Alaska, is an example of the wholly-owned and managed venture investment of a CDC. Through its Seattle subsidiary, CEDC Sales, Inc., CEDC operates the retail trading post chain, which is the commercial mainstay of rural Alaska. The CDC bought the chain from its original owners, who had held it for a hundred years. After bringing in new management, the Corporation is rapidly expanding the services and size of the chain, opening new stores, and upgrading existing ones. The chain is operating profitably and successfully.

Denver Community Development Corporation
The Denver Community Development Corporation has both venture investments operated by entrepreneurs and wholly-owned ventures of its own. One venture, a natural ice cream and yogurt manufacturer, recently completed the first successful CDC venture public stock sale, and another venture is planning an offering. The Denver CDC also owns a three-store supermarket chain, operated by CDC managers. Most CDCs, like the Denver one, combine strategies for ownership and management according to their development needs and the opportunities available.

A CDC can build foundation for future development and economic activity in the community. The economic infrastructure, or the minimum requirements for certain business or industrial activities, is often absent in low income neighborhoods. The CDC may use its funds, or obtain other funds, to provide needed improvements. Industrial parks or sites, technical assistance for management, assistance in dealing with government red tape and in securing utilities and road construction, and even active recruitment drives to attract industry have all been provided by CDCs for their neighborhoods. CDCs also have been responsible for housing construction and rehabilitation, employment and training programs, and the development of financial institutions within their communities.

Nor are community development activities limited to economic infrastructures. CDCs have supported community development projects that sustain a sense of community identity, pride or unity, or ethnic and cultural traditions. CDCs have initiated artistic programs, recreational programs, and cultural centers.

Pyramid West Corporation
Pyramid West Corporation of Chicago has an extensive community development program focused on infrastructure development. This CDC concentrates on land and industrial park development, employment, and housing programs. Its youth training program, which rehabilitates dilapidated housing, has earned national attention. Pyramid West has even established a bank, the Bank of North Lawndale, to ease the community's difficulties in obtaining loans and financing.

Zion NonProfit Charitable Trust
The Zion NonProfit Charitable Trust of Philadelphia was the first CDC to construct an inner city commercial center. Progress Plaza serves as a model for commercial improvements by CDCs around the country. Zion has already established a $6 million health center and in now planning another $2 million commercial center.

The low-income neighborhoods which house CDCs usually lack central institutions. The CDC almost always directs part of its energies toward developing community institutions. Institution building offers the community a longterm, viable, central organization which can provide the types of services and planning necessary for the long term development of the community. Institution building is aimed at longterm and permanent improvements in the community, combining community resources with long range planning and comprehensive action.

2. Sources of Support for Community Development Corporations

CDCs are limited by external training and technical assistance. The most serious restriction on CDCs, one unlikely to be overcome in the near future, is a general lack of resources, particularly of relatively independent venture capital. Most grant funds are restricted to specific projects. The two major sources of venture capital from the federal government are the Small Business Administration (SBA) and the Community Services Administration (CSA). Neither of these programs meets the needs of CDCs. SBA refuses to deal with CDCs, preferring its own Small Business Investment Corporations, in clear violation of federal statutes (Public Law 95-568 requires the SBA to admit CDCs to its programs). CSA, the manager of the major federal assistance program for CDCs, is in shambles, and its management of the CDC program has been criticized repeatedly. Other federal resources are slowly becoming available to CDCs, including new programs from the Departments of Commerce and Housing and Urban Development. Neither federal coordination nor overall assistance program for CDCs have been established; CDCs have been forced away from the federal government to other sources of funding. Many of the external restrictions on CDCs can be traced to ignorance, confusion, or misunderstanding of the potential of community based economic development. A general lack of partnership with the federal government and a generally low profile by the CDCs themselves have contributed to an information gap between CDCs and many decision makers.

Once these constraints on CDC activity are overcome, CDCs can move to fulfill their potential. A mainstay of the CDC concept is to multiply available funds through efficiency, coordination, and planning, across a broad base. The ideal would be to reach a point of self-sufficiency, at which the CDC can carry on its activities without additional infusions of outside funds, except through normal financing mechanisms or for special social service projects. At that point, the CDC would be generating the funds it needed through profits from its business ventures.

Until recently, self-sufficiency was considered impossible. The conditions under which CDCs operate are so harsh, and the business climate so difficult, that CDCs were thought to be permanently dependent on outside aid. By and large, this assessment still stands, but not so surely as before. Some CDCs concentrating on business development are close enough to self-sufficiency to be preparing for it. The Kentucky Highlands Investment Corporation, the self-proclaimed "leading proponent of the free enterprise approach to community based economic development", estimated in its annual report that it was within three years of self-sufficiency.

Of course, very few CDCs are near self-sufficiency. CDC management experts predict a seven to ten year maturation period before a CDC can expect consistently to produce profits from ventures, and much more time before the ventures' profits will support the CDC's administrative budget. Most CDCs were started in the early 1970s and have not yet reached maturity. Almost all of them will continue to need outside capital for at least the next several years.

A particularly promising area for CDCs is cooperation with private corporations. Public-private partnerships are highly appropriate for CDCs, which understand through their own experience the concerns of corporations and can translate those concerns into action at the community level. The CDC can find a mutual interest with private corporations based on enterprise and fair profit rather than corporate philanthropy.

While too few CDCs or corporations have explored these opportunities, some such partnerships have survived for many years. International Business Machines has operated an inner city manufacturing plant in the Bedford-Stuyvesant ghetto of Brooklyn. With the assistance of the Bedford-Stuyvesant Restoration Corporation IBM decided to expand its plant and remain in the community rather than relocate to a suburban site. The CDC did not ask for charity; it merely showed IBM that the plant was performing comparably with similar plants elsewhere, that a new site was available in the neighborhood, that the community believed that the plant was needed, and that the CDC would assist IBM through the maze of city paperwork required to relocate the building. IBM executives reported that the decision to stay was based on sound business principles, not altruism.

Similar partnerships have been formed around the country. J.C. Penney buys its highly advertised "plain pockets" blue jeans from a rural Mississippi CDC, the Delta Enterprises Corporation, which also sells products to K-Mart, Montgomery Ward, and other national retailers. The products sell because Delta produces them competitively. The partnerships with Delta were formed by businesses because they were a good business deal.

In the 1960s, minorities and the poor won some civil rights battles, yet economic opportunities eluded them. The Community development corporation was an effort to help redress this inequity.

Community Service Administration (CSA) is a major source of funding for CDCs. CSA programs have been limited by their lack of technical assistance to CDCs in start-up stages. The General Accounting Office reported to the House Committee on Government Operations that some CDCs had not had an "appreciable impact" in most neighborhoods, but that CDCs could have been more effective if appropriate professional advice had been available and if the projects had been carefully monitored. Persistent efforts to reorganize CSA out of existence during the Nixon, Ford, and Carter Administrations have also hampered the agency's effectiveness.

The President's Urban Policy Statement of March 1978 called for an additional $20 million for allocation to existing "successful" CDCs. In addition to the forty-four federal CDCs, approximately 650 nonfederal CDCs exist. None of these are currently permitted to enter the federal program. The Administration's original funding request for CDCs under Title VII of the Economic Opportunity Act in Fiscal Year 1979 was $25.8 million; this reflects a continued decline in funding from the early 1970s. Congress authorized an increased budget of $70 million for fiscal year 1979, but CSA is currently operating under a continuing resolution providing appropriations at last year's levels of $42.6 million. It is unlikely that the Administration will ask for a supplemental appropriation.

Two amendments to the Economic Opportunity Act passed by the 95th Congress will allow for a major increase in the ability of CSA-sponsored development corporations to leverage private money with their public funds. The successful CDCs, as determined by CSA's Office for Economic Development, will be able to deposit their yearly funding allocations in a local financial institution, thus enabling the CDC to leverage its funds through a bank or credit union. Another provision of the 1978 authorizing legislation for CSA enables both the agency and the individual CDCs to establish Advisory Investment Councils which will consist of private entrepreneurs who will advise the CDC on potential investment strategies. The National Commission on Neighborhoods strongly supports implementation of these provisions.

Small Business Administration

The Small Business Administration authorizing legislation expressly mandates that SBA programs be made accessible to CDC sponsored ventures. Traditionally, SBA has taken the position that community development corporations, most of which are nonprofit organizations, should not be the beneficiary of programs established to support "for profit" operations. For profit subsidiaries, in which a CDC holds majority ownership, have also been treated as ineligible.

Small Business Investments Companies (SBICs) and Minority Enterprise Small Business Investment Companies (MESBICs) leverage capital put into a company at a 4 to 1 ration. Thus, an investment of $100,000 by a CDC could leverage $400,000 in venture capital. However, SBA does not allow the initial capitalization of a SBIC or MESBIC to be from a federal or state government source. This excludes the use of Community Development Block Grant funds from the Department of Housing and Urban Development and Community Services Administration Title VII funds. In the latter case, SBA has ignored the wording of the United States Code, Chapter 42, Section 2985a which orders SBA to treat Title VII monies as "private paid in capital".

To change this provision, SBA regulations, 13 C.F.R. Section 107.101(d) should be amended. The Small Business Administration assists businesses owned or controlled by "socially or economically disadvantaged" persons by contracting with other federal agencies to subcontract federal procurement to these firms. SBA's 8(a) contracts procure a range of goods and services. Producing them in poor and declining neighborhoods can employ people and establish businesses there. For CDC owned business to qualify, the Section 8(a) Procurement Assistance program should be altered through a change in 13. C.F.R. Section 124.8-1(c)(2) to state:

> Ownership of an otherwise eligible small business concern by an organization financially assisted under Title VII of the Community Services Act of 1974 shall constitute conclusive evidence that the concern is owned and controlled by disadvantaged persons. 13

The Section 7(a) programs provide working capital loans and loan guarantees for small businesses. Loans are repaid over a period of five to ten years. The 502 program provides loans and guarantees for construction or rehabilitation of physical structures with repayment schedules of up to twenty-five years. Loans and loan guarantees under Sections 7(a) and 502 have been available to community development corporation ventures but difficult to obtain in substantial numbers.

Economic Development Administration

At the Department of Commerce, the Economic Development Administration (EDA) has taken a major role in federal support for community economic development in the past two years. In fiscal year 1979, $50 million will have been available for this purpose through the Office of Special Projects (OSP). Funding consists of set-asides from EDA's Public works, Title IX (Long Range Economic Distress), and Technical assistance programs. This money is available to community development corporations and other groups provided that the proposed effort fits in with the overall economic development plan for the city.

The Office of Special Projects has been in existence for only a year. Established by agency order and operating without a legislative mandate, it is under the bureaucratic gun to produce quick results. It tends to reward organizations with established capacity. A relatively small percentage of funds has been allocated to Title VII CDCs. Substantial funding has been directed to manpower programs such as Opportunities Industrialization Centers and industrial park development. Planning, technical assistance, and capacity building funds are available through OSP but these funds are relatively insignificant ($653,863).

It should be noted that with a grant from the Economic Development Administration's Section 302 planning funds, the East Los Angeles Community Union (TELACU) is preparing a comprehensive economic development program for six localities in its "Special Impact Areas". TELACU is the first CDC that has been awarded such a grant. Community development corporations carrying out large scale development need access to such types of planning monies to assist poor communities.

Department of Housing and Urban Development

The Housing and Community Development Amendments of 1977 (Public Law 95-128) altered the Community Development Block Grant Program to permit funding of a wide range of economic development activities. The Urban Development Action Grant program was established in 1978 for the purpose of creating public, community, and private partnerships in urban economic development. Moreover, the Office of Neighborhoods, Voluntary Associations, and Consumer Protection in HUD gives federal and nonfederal community development corporations a source of capital, planning, and technical assistance funds.

According to the National Economic Development Law Project, a research and technical organization for CDCs, there has been a dramatic increase in Title VII CDC involvement in the Block Grant program in recent years.[14] Over half of the urban CDCs have applied for or received funding through this program. Housing activities have been the most frequent types of projects with CDCs using CDBG for the write-down of land costs, the acquisition of the structure, renovation, and financing.[15] There has also been support for commercial revitalization through CDCs.

The Office of Community Planning and Development at HUD has not been of much assistance in promoting such partnerships. HUD's Office of Neighborhoods should make technical assistance money from the Self-Help Development Fund available for increasing the capacity of community development corporations to carry out neighborhood economic development projects.

The Office of Neighborhoods, Voluntary Associations, and Consumer Protection (NVACP) at HUD has been attempting to fill some of the gaps in other HUD programs. It has provided technical assistance and planning grants to community organizations attempting to develop UDAGs. It has also provided implementation money for community economic development. The Office of Neighborhoods also plays a vital advocacy role for all forms of neighborhood development. And through the Self-Help Development Fund, neighborhood organizations with a high level of experience and expertise can assist other neighborhood organizations in developing similar capacity.

The Comprehensive Employment and Training Act

The National Economic Development Law Project surveyed Title VII community development corporations using CETA and found that seventy percent of all CETA participants in Comprehensive Economic Development Strategies programs were placed in full time, unsubsidized jobs.[16] Ten CDCs are currently participating in a joint program with the Department of Labor and the Department of Housing and Urban Development to train young, unskilled workers in projects involving housing rehabilitation.

There have been considerable constraints for CDCs and other neighborhood economic development organizations created by the CETA "prime sponsors", generally city, county, or state governments. Of the slots given to "community based organizations" (CETA uses this term for most nongovernment organizations participating in the program including United Way and other large agencies), about two thirds of the positions created have been jobs in the social services, many of which are dropped by the hiring organization as soon as the CETA funding lapses.

The Massachusetts State Manpower Council prepared a proposal for the Department of Labor documenting that, on certain jobs, CETA workers could generate enough income in one year to sustain their employment for the following year, and then once on the regular payroll could generate enough income to sustain their jobs in each subsequent year. CETA jobs now can produce income for subcontractors, including community based organizations.

Although existing guidelines recommend that CBOs receive at least one quarter of local CETA allocations, many cities have not followed these guidelines. One city, Wichita, Kansas, has specifically refused to grant CETA slots to CBOs. While the 1978 legislation strengthens the CBO participation provision, there must be adequate enforcement by the Department of Labor to implement this provision.

The 1978 amendments also called for more emphasis within public sector jobs programs on recruiting of the structurally unemployed placing them ultimately in private sector jobs. CDCs with their high placement rates, are one of the most appropriate vehicles for this emphasis. Three significant community programs sponsored by the Opportunities Industrialization Centers, the National Urban League, and SER-Jobs for Progress, have also had high job placement ratios.

A new program established by the 1978 amendments authorizes the formation of local "private industry councils" (PICS) which will consist of representatives of the private sector, the community, and state and local governments. The PICs have a $400 million authorization (but as yet no appropriation) to develop approaches to using CETA to create permanent private sector jobs. Some PICs have already been organized using CETA discertionary funds. Community development corporations and other neighborhood groups have not been well represented.

3. Neighborhood Commercial Revitalization

While suburban commercial areas have been expanding and downtown business districts regrouping, neighborhood commercial areas have been declining. Neighborhood commercial revitalizatin programs originate with the determination of residents and merchants to make their neighborhoods viable despite the forces acting against them. Neighborhood commercial revitalization is a successful reality in many communities. The following case studies review projects with varied approaches but common principles.

River East Project, Toledo, Ohio

One of the most successful neighborhood revitalization projects in the country is underway in Toledo, Ohio. Several years ago, a community sponsored marketing study of the East Toledo neighborhood found that although the residents of the area had a total disposable income of $56 million, approximately $15 million, or less than 30 percent, was spent within the neighborhood's commercial area. The remaining $40 million was being spent either at stores in the nearby suburbs or in other commercial areas of Toledo.[17] To address this outflow of community dollars, the River East Economic Revitalization Committee was formed.

River East's revitalization effort began with symbolic gestures—the planting of new trees along the commercial area and a fundraising project. These efforts were attempts to build neighborhood confidence and cooperation between merchants and residents. Once the linkages had been forged over a period of several years, the community reached for outside support. Peter Ujvagi, a Board member of the River East Economic Revitalization Corporation and a member of the National Commission on Neighborhoods told the House Banking Committee how these initial efforts quickly multiplied:

> We started with $3,000 contributed by the residents and businessmen of East Toledo to the River East Project. That $3,000 was matched by a grant of $12,000 by the National Center for Urban Ethnic Affairs, which was a guiding force in the development of our project. That was then matched by a Challenge grant of $15,000 from the Greater Toledo Corporation, a business supported organization. With that $30,000, we approached the city for a matching grant from Community Development and that combined $60,000 was then matched by the Urban Reinvestment Task Force through its Neighborhood Preservation Project. Out of $30,000, we leveraged $120,000 of private and public funds for our operating monies.

River East has brought 75 permanent new jobs on Main Street and over 100 workers will be involved in the demolition, clearance, site preparation, construction, and furnishing of the new retail center. A new half-million dollar restaurant has been built on Front Street with nearly two-thirds of its employees from East Toledo. Dozens of private commercial buildings are being renovated. Privately funded improvements jumped 92 percent from 1977. Because of River East, an entirely new section of the Toledo Zoning code was written: C-6 zoning for revitalizing commercial business areas. According to Commissioner Ujvagi, "The River East experience has produced neighborhood people who have the capacity to write proposals, negotiate with foundations, and make persuasive presentations to the planning committee and the city council. They can plan and hold numerous promotional events, establish a local development corporation and make application for various Small Business Administration and conventional bank loans."

The success of the River East project stems from the persistence of neighborhood merchants and residents. Occasionally, city support has faltered. At times, securing the appropriate private commitments was a long and tedious process. Numerous inquiries were directed to major companies and rejected before a supermarket was found to be the centerpiece of a $4.7 million shopping area. In spite of these obstacles, River East shows how a strong and cohesive community partnership can overcome the inherent problems of re-establishing a neighborhood based economy.

The Bedford-Stuyvesant Restoration Corporation, New York City
River East is not an isolated experience. The Bedford-Stuyvesant Restoration Corporation, a community development corporation in a minority area of Brooklyn, New York, has recently completed the construction of Restoration Plaza, a major commercial venture.[20] Bedford-Stuyvesant, once a wealthy white area, is now almost completely black and Puerto Rican. Unemployment has averaged between 15 and 20 percent according to government statistics and exceeds 50 percent among teenagers. Underemployment is also a critical problem.

The decision to develop Restoration Plaza was a response to one of the major community concerns, the inadequacy of retail commercial facilities. A study of neighborhood social and economic conditions found that between 1948 and 1967 the number of businesses had dropped 57 percent and dollar sales 24 percent.[21] The economic basis for the Plaza included the large potential market (Bedford-Stuyvesant's population is 400,000) and the availability of numerous forms of public transportation converging on the Plaza area.

The Bedford-Stuyvesant Restoration Corporation's capacity to handle so substantial a project was backed by a $3.4 million Ford Foundation guarantee. Two major commercial banks loaned $4 million to the venture at the prime interest rate and the Restoration Corporation obtained $1.6 million from federal grants and Astor Foundation money. The project proceeded in spite of cost overruns and construction delays. It opened in October, 1975.

To date, larger stores in the Plaza have tended to be more successful than smaller, specialized businesses. Retailers located on the second floor of the Plaza have not fared as well as those on the street level. Bedford-Stuyvesant has now revised its leasing plans to locate more office space on the second floor. Technical and financial assistance is available to all firms in the Plaza through Bedford-Stuyvesant's Economic Development Division. This assistance has been largely responsible for a low default rate in the Plaza.

Like many start-up ventures, Restoration Plaza was not immediately profitable. Taxes, insurance, and utility costs have been high. In order to relieve these burdens, the Bedford-Stuyvesant Restoration Corporation applied for and received a tax abatement from the New York City Board of Estimates. The corporation projects that the $80,000 annually saved due to the abatement will transform Restoration Plaza into a profitable enterprise. It has not, however, been an immediate financial success. Over 445 jobs have been generated by the project. Most of those jobs are held by local residents. The Plaza has created viable ownership opportunities for minority businessmen by providing them with essential technical assistance and financing.

The Brightwood Corporation: Springfield, Massachusetts

The River East and Bedford-Stuyvesant Restoration Corporation experiences are good examples of successful and substantial commercial development projects. A case study by Harvard's Neighborhood Economic Development Workshop for the National Commission on Neighborhoods detailed the experiences of a smaller community organization in attempting to upgrade a neighborhood commercial sector.

The Brightwood Corporation serves both the Brightwood and Memorial Square neighborhoods of Springfield, Massachusetts. The two neighborhoods, located to the north of the downtown area, are separated by an interstate highway and a rail line. Eleven thousand residents live in the area, of whom thirty percent are Hispanic. The Brightwood and Memorial Square neighborhood councils joined with the Springfield Chamber of Commerce to form an area Economic Development Office to evaluate and respond to the commercial needs of the community. Following a door-to-door survey, a shopping center with a grocery store as "anchor" was chosen as the vehicle for provision of these commercial services. To develop this shopping center, the Brightwood Corporation was formed.

The first problem Brightwood confronted was that no major grocer was willing to locate in the shopping area. As a result, the decision was made to form a food cooperative. In order to qualify for loans under the SBA 502 Local Development Corporation program, Brightwood had to incorporate itself with for-profit status and organize its food co-op as a for-profit entity. The credit union, a nonprofit subsidiary of Brightwood Corporation was not eligible for SBA programs.

Brightwood has received technical assistance from public and private sources more often after difficulties have arisen, not prior to them. Financing has also been difficult and the debt-to-equity ratio of funds invested in the shopping center is approximately 45:1, an exorbitant position in which many community organizations and individual merchants frequently find themselves. The highly speculative nature of the shopping center, indicated by the lack of equity investment, may continue to haunt Brightwood in obtaining future private equity.

Brightwood has learned from its experiences. Rather than attempting to establish new businesses, Brightwood now focuses on fortifying existing merchants. Recently, the Corporation was granted $15,000 from the Massachusetts Department of Community Affairs for revitalization of a section of Main Street. There was a careful strategy to explain the project and introduce the Brightwood Corporation to merchants. An inventory of services and merchandise on Main Street was taken, along with a detailed census and consumer survey. Technical assistance at this stage was provided by the National Center for Urban Ethnic Affairs and Springfield College.

Renovation grants were later given to five merchants, based on their income levels and their ability to leverage the funds with private investment. These merchants also expressed willingness to participate in a local merchant's association and to link their business with community needs. Hiring was done in the neighborhood when possible. In addition to the resulting physical improvements, the project yielded an active merchants' association.

Brightwood exemplifies the community development organizations that attempt to make a visible impact on their community, experience difficulty, retrench, learn from their mistakes, and proceed, a bit wiser, with a careful development strategy for their neighborhoods.

The experiences of River East, Restoration Plaza, and Brightwood Corporation show that neighborhood commercial revitalization is possible where the necessary partnershops can be established. River East is a moderate income, white ethnic neighborhood. Restoration Plaza primarily serves low income black communities. Brightwood serves a diverse ethnic population of limited means. Each project has had the net effect of strengthening the community organization's capacity to assist its neighborhood in terms of physical development and job creation. Each project has eventually received some form of backing from the city government.

Neighborhood commercial revitalization is most successful when community organizations, merchants' associations, government, and the private sector cooperate as partners. In partnerships with the public and private sectors, community organizations do not begin as equals. Only when the organization develops the expertise to effectively address issues can it function as an equal. Often this expertise is not readily available to neighborhood organizations. Identifying people who have both a solid awareness of neighborhood dynamics and the business oriented expertise to put a complicated loan or grant application together is difficult. Neighborhood residents can be trained in business skills if technical assistance in these skills is available. Without these skills, the community organization has little access to or control over the additional public and private investment necessary to form the appropriate partnerships.

The National Development Council suggested to the Commission a four point program for revitalization of older business districts involving public improvements, design standards, financing and management promotion, and administration and development. Organized groups of merchants can lobby the city for public improvements and mandatory design standards and zoning for their area. A functional management vehicle permits more effective negotiation with banks and the availability to individual merchants of services commonly provided by suburban shopping centers. By joining with a local community organization, merchants gain both organizational and economic support.

City government has an enormous ability to shape neighborhood commercial revitalization. To date, few cities have grasped this possibility in a comprehensive manner. A city can make clear its intention to support revitalization through physical improvement programs such as code enforcement; foreclosure on tax delinquents; zoning; the establishment of mandatory design standards; and the creative use of parks, landscaping, street lighting, and public works. Visible city support can stimulate private investment and community and merchant confidence.

Private investment in neighborhood commercial revitalization has been minimal to date. Long term loans to small businesses are basically nonexistent. SBA loan guarantee programs can cover 15 to 25 year loans, but banks do not widely support such loans. Large commercial concerns such as supermarket and retail chains are reluctant to participate in commercial revitalization, even where strong community organizations and merchant associations are working with city governments and banks.

Federal Support For Neighborhood Commercial Revitalization

There are nine federal programs, existing or proposed, which could assist neighborhood commercial revitalization. While all the programs seek to promote partnerships of local residents, merchant associations, financial institutions, and city government, each provides a type of assistance unique to an agency's particular program emphasis.

The Office of Minority Business Enterprise (OMBE) was the first federal agency to actively support neighborhood commercial revitalization programs. In 1974, the agency provided funds to the National Center for urban Ethnic Affairs, a technical assistance organization for neighborhoods. The purpose of the grant was to establish a strategy for neighborhood commercial revitalization. The project involved OMBE support for commercial revitalization efforts in two neighborhoods of Providence, Rhode Island.

The Atwells Avenue project in an Italian neighborhood has been completed and is considered a notable success. Thirty new businesses have been created in that area. The OMBE-sponsored Providence Business Development Organization has been instrumental in organizing local merchants and residents and in establishing the necessary partnerships. The success of Atwells Avenue, however, has not been fully replicated in the black community. The disposable income of residents in Providence's black community is less than that in the Italian neighborhoods, so less is spent on goods and services. Atwells Avenue has also had the advantages of access to customers from neighborhoods outside its immediate area.

The providence projects caused some controversy at OMBE. The agency is restricted by its enabling legislation to assisting minority enterprises. Although it can be argued that the Atwells Avenue project was a test case to be applied afterwards in minority neighborhoods, the legislative mandate of OMBE probably was being interpreted liberally.

Presently, OMBE does not have a Neighborhood Commercial Revitalization "program". Instead, it funds projects in three categories: Specialized Business Services, Public Sector Support Services, and Research and Demonstration. The agency seeks partnerships with other programs, as expressed in its policy statement on Neighborhood Commercial Revitalization Projects:

> OMBE is therefore not an initiator of Neighborhood Commercial Revitalization so much as a participator once initial commitments have been made. Total financial resources are limited to $400,000 for fiscal year 1979, enough to fund only six projects in partnership with other agencies.

The Small Business Administration initiated a Neighborhood Business Revitalization program (NBR) in early 1976. The Administrator at that time, Mitchell Kobelinski, personally instituted the new program, using SBA's Local Development Corporation (LDC) as an organizing and financing vehicle for commercial area projects. The LDC is capitalized by SBA at a maximum ratio of 90 percent SBA financing to 10 percent local financing. Loans can be used for plant construction, conversion, or expansion, including land acquisition. The loans can be made directly to or in cooperation with financial institutions with an SBA guarantee up to 90 percent. The LDC program does not provide funding for staff or administrative purposes. This creates a local problem—whether to invest scarce capital into leveraging for loans or into professional staff. A bill which would have included financing for LDC staff was vetoed by the president in 1978.

A prerequisite for participation in the Neighborhood Business Revitalization program is designated as a "declining but viable" neighborhood. Some organizations believe this requirement may inhibit private investment since banks and firms are reluctant to invest in what is officially described as a "declining" area. Emphasis on loan guarantees over direct loans has also created difficulties, since many banks, especially neighborhood branches, have neither the desire nor the appropriate staff to handle SBA paperwork.

The Neighborhood Business Revitalization program can make long term loans to merchants. The extended payment period eases the cash flow requirements of individual merchants. However, conventional lenders will not make these loans since they constrain liquidity; that is, they tie up funds that could be invested on a short term basis for quick returns. The Neighborhood Business Revitalization program must investigate the possibilities of arranging for a secondary market which would increase the participation of conventional lenders.

Through an interagency agreement with HUD and EDA, 25 cities were selected for participation in the NBR initiative. HUD and EDA money was allocated to employ two consulting firms: The National Center for Urban Ethnic Affairs (NCUEA) was assigned to provide assistance in organizing neighborhood organizations and merchants, and the National Development Council (NDC) was retained to train city officials to assist in the packaging and processing of financial proposals.

Field support for the program is at best lukewarm and at worst antagonistic. This necessitated the contracts with NCUEA and NDC. Both contractors have encountered problems. NCUEA is limited to organizing merchants and residents in ten of the twenty-five cities in which local governments will permit it. Both NCUEA and the National Development Council have been relatively successful in cities where local government has been cooperative, such as Baltimore.

While the Neighborhood Business Revitalization program was implemented during the Carter Administration, there is currently no principal advocate for neighborhood commercial programs within SBA. The NBR program and the agency itself seem to be in a holding pattern, waiting for the outcome of reorganization proposals, and, in the case of NBR, waiting to be assigned a place in the Administration's urban strategy.

The Neighborhood Reinvestment Corporation, formerly the Urban Reinvestment Task Force, has funded commercial revitalization programs through its Neighborhood Preservation Project (NPP). One NPP supported effort was the revitalization of Toledo, Ohio's River East commercial strip.

The Commercial reinvestment Task Force (CRTF) is being coordinated by the Comptroller of the Currency's Office. As proposed, the CRTF, "would expand the Urban Reinvestment Task Force housing concept (voluntary partnerships through its Neighborhood Housing Services program) into the commercial credit area. These new 'centers' would be local organizations comprised of merchants, residents, government officials, and commercial bankers".[22] By the end of 1978, CRTF had identified two neighborhoods, one in Baltimore, Maryland, and one in Portland, Oregon for the initial demonstration cities. Ten additional cities are being chosen for the second round of projects.

Programs of the Department of Housing and Urban Development can be used for neighborhood commercial revitalization projects. The Community Development Block Grant program is of particular utility to a Local Development Corporation since block grant funds can pay for planning and technical assistance. An LDC should not have to loan 75 percent of its money to low and moderate income entrepreneurs so long as loans are available to low and moderate income people (along with technical assistance if necessary), and are used to support enterprises that employ or serve 75 percent low and moderate income people.

HUD's Office of Neighborhoods issued a number of grants for commercial revitalization projects in its 1978 allocation of $2.5 million from discretionary Block Grant Funds to neighborhood organizations. Most of these grants were for implementation and were directed to established organizations. In Fiscal Year 1979, however, the $15 million Self-Help Development program of the Office of Neighborhoods will provide not only grants for implementation but also increased planning, technical assistance, and capacity building awards. These awards will require a letter from the mayor of the city supporting the neighborhood's application and affirming the application's conformity with citywide plans.

The Office of Special Projects at the Economic Development Administration has funded a few commercial projects. These projects have been oriented more to large scale commercial development than to commercial row revitalization. The Harlem Commonwealth Council In New York, a Title VII CDC, received a grant to produce an industrial and commercial development plan. Fifth City Industrial Promotion Corporation in Chicago, Illinois received $512,000 of "public works" money for a multipurpose commercial center.

Finally, the Community Services Administration funds neighborhood commercial projects indirectly through its yearly allocations to its Title VII CDCs. Most of the CDCs that have implemented commercial plans concentrate on the development of new shopping facilities. They are attempting to fill the need for commercial businesses in poor neighborhoods as opposed to the needs of neighborhoods just entering a disinvestment cycle, where the focus is on the revitalization and the expansion of existing resources.

There is no one source of commercial revitalization resources from which a neighborhood organization can obtain comprehensive assistance appropriate to that area. An individual organization may not need an SBA approach or an EDA approach, but some flexible combination of the two. The brokering process to achieve this combination leads to delays and confusion at the local level. The approach of receiving grants from five different agencies costs the neighborhood organizations time and also encourages concentration of federal resources on existing projects.

The concentration of various agency resources on existing projects depress new project development. OMBE, for example, will only go into neighborhoods where another agency has led. Other agencies follow the same pattern, though less explicitly. And because everyone follows, no one leads.

Minority Business Enterprise

The lack of opportunity for minorities to own and operate their own profit-making companies is one of the nation's most significant economic failures. Racial exclusion undoubtedly constitutes the major obstacle to minority-owned businesses. Minority entrepreneurship historically rises during periods of national economic prosperity, but plummets as economic activity ebbs. To the extent that minority-owned companies are serving their own communities, the lack of income in the neighborhood restricts the number of small businesses which can manage to survive there. However, there are other obstacles—primarily access to capital and technical assistance—which must be remedied.

The Colorado Economic Development Association: Denver, Colorado

The Colorado Economic Development Association (CEDA) is a partnership of local banks and the minority community in Denver. One of the primary reasons for CEDA's success has been its insistence that businessmen obtaining financing from CEDA complete a course in elementary business practices and subscribe to an approved accounting service. The courses are tailored to businessmen's schedules and usually last two to four weeks. The accounting service provides auditing of the company's ledgers for a small fee. CEDA also provides followup management and technical assistance to its clients. Banks are more willing to make conventional loans to CEDA participants because they know that the business has the basic skills, as well as sound advice from professionals.

The Federal government is beginning to adopt CEDA's model. In the case of the Small Business Administration's Section 8(a) minority procurement program, Senator Sam Nunn of Georgia included a provision in the Minority Business Development Act of 1978 stating that no firm could obtain contracts unless it also participated in an SBA business development program. The legislation also mandates coordination among Small Business Administration programs.

R. P. Warren Patrol and Security Bureau: Long Island, New York

The R. P. Warren Patrol and Security Bureau, Inc., is located in affluent Nassau County. Within the county, however, there are eleven designated "Special Impact Areas" where the unemployment rate varies from 20 to 30 percent. The company was established by Richard P. Warren in 1969, with personal savings and a series of small bank loans. Two years later, Mr. Warren confronted severe cash flow problems. Mr. Warren approached several local banks for a $25,000 working capital loan. His newly established firm could only submit a one year financial statement, which showed the firm to be operating at a deficit.

Rejected by private financial institutions, Warren then applied for and received a loan from the Nassau Community Economic Development Corporation (CEDC), a Community Development Corporation organized through the Community Services Administration Title VII program. The terms of the loan were a six-month moratorium on interest, a twelve-month payout period and the possibility of refinancing after one year. After Warren made several monthly repayments totalling approximately $12,000, the Nassau CEDC took the balance of the loan as equity in the company. As a result, Warren was able to operate on a break-even basis through 1972 and 1973, showing some profits in 1973. By 1973, the Nassau CDC had established a Minority Enterprise Small Business Investment Company (MESBIC) which was able to invest an additional $25,000 in R. P. Warren. This commitment allowed Warren to obtain a matching $25,000 line of credit from a local Hempstead bank.

The turning point for the firm came in 1974 with several contracts awarded to Warren through the SBA Section 8(a) Minority Procurement program. The Hempstead bank has gradually expanded its line of credit to the firm to $300,000. In the meantime, Warren has established an impressive record with his government and commercial clients. This track record helped Warren solidify his banking and financing contacts.

An essential factor in Warren's success was the fact that not only did the Nassau CEDC invest money in his venture, but also provided him with technical assistance in management and finance. The manager of the Nassau CEDC's MESBIC offered invaluable technical assistance to the Warren venture. After a period of free technical assistance, Warren now contracts with the MESBIC for additional project assistance.

The employees of R. P. Warren are predominantly black and Hispanic, placed with the firm through a variety of state and local manpower programs. The company employs 32 professional staff and 393 security officers. While not all of the jobs are held by local residents, the majority of the jobs are held by minority and low income persons. The jobs pay good wages and offer mobility within the company.

Warren has been able to establish the only minority-owned and operated armored car service in the country. He foresees also being able to establish a training school for security personnel, first to train his employees and later to be open to others.

Minority Construction Companies

Minority-owned construction companies are essential to the physical rebuilding of poor and declining neighborhoods. However, 85 percent of all minority construction firms end as failures. One of the principal reasons for the lack of financial viability among these firms is their inability to obtain surety bonding. Without a proven track record, a company cannot obtain bonding and until a company has bonding, it cannot get contracts—and a track record. This is especially the case with the large contracts that establish firms.

In response to the problems of minority contractors, the Office of Minority Business Enterprise, the Ford Foundation, and the National Urban Coalition combined to create the Minority Contractors Assistance Project (MCAP). The MCAP is a private, nonprofit organization which provides technical and financial assistance to minority contractors. MCAP issues loans as letters of credit. These guarantees, plus MCAP's negotiating efforts, ease minority contractors' access to bonding and to construction work; the developer or prime contractor has sufficient assurances of repayment should the minority contractor default. MCAP also provides important technical assistance to help contractors complete jobs efficiently and improve their managerial and technical capacity.

The private sector should also play a major role in making equity investment in minority enterprises and providing technical assistance to small businesses. Investments made through MESBICs directed by community development organizations would be one means of channeling funds to particularly qualified enterprises. Joint ventures are another option.

National organizations which profess to represent the concerns of small business, such as the Chamber of Commerce, should focus on the particular problems of minority constituents and develop nongovernmental solutions to the needs for financing and technical assistance. Educational institutions can also contribute significantly to minority business development by opening their business related courses to minority entrepreneurs participating in specified certain business assistance programs. The participating schools either could be reimbursed by SBA or OMBE or could claim a tax credit for each participant successfully completing the course. Legislation passed by the 95th Congress to establish Small Business Development Centers similar to Agricultural Extension programs on college campuses was pocket-vetoed by President Carter.

Federal Support for Minority Business Enterprises

Two agencies in the federal government represent the major sources of capital and technical assistance for minority business enterprise: the Small Business Administration (SBA) and the Office of Minority Business Enterprise (OMBE) at the Department of Commerce. SBA provides the capital; OMBE supplies the technical assistance. SBA's efforts have been channeled through three programs: Minority Enterprise Small Business

Investment Companies (MESBICs), the Section 8(a) Minority Procurement Program, and Equal Opportunity Loans (EOLs).

The Minority Enterprise Small Business Investment Company (MESBIC) program was established in November of 1969 to address the capital needs of the minority community. Under the original legislation, MESBICs were able to leverage capital paid into the company through SBA's purchase of debentures at a 3 or 4 to 1 ratio, depending on the initial investment. MESBIC capital was then available for equity investment or loan financing in minority enterprises.

MESBICs have been criticized repeatedly as ineffective. In a report titled "MESBIC Myopia," Richard Rosenblum and John Shank pointed to three major MESBIC problems: organizations may capitalize a MESBIC at $150,000, a figure that when leveraged does not provide adequate capital for "meaningful" minority business enterprise; there is no adequate return on MESBIC investments compared to other private sector investments; and there is little or no community control over MESBIC investments.[24] Moreover, many of the MESBICs were established by major corporations to finance their own chains. For example, a fast food corporation's MESBIC would finance food chains in minority neighborhoods. Other MESBICs have operated without sufficient staff or technical capacity to identify and develop profitable enterprises.

In 1978, legislation was passed (The Small Business Investment Amendments of 1978) that addresses some of the MESBIC problems. A $500,000 initial capitalization figure was established for all new MESBICs. MESBICs may now be formed as "limited partnerships" providing tax incentives to large investors. Administrative changes have been made with respect to SBA's role which will increase the flexibility of MESBIC investment.

All of those changes should make it easier for MESBIC to operate. They do not, however, settle the questions of whether MESBICs themselves can attract significant investment; who will control the placement of investments; and what type of technical services will be available to assist MESBICs financial operations.

MESBICs seem to work better under community control through a CDC that can direct appropriate investments within a neighborhood, or when linked with the Business Development Organization established by OMBE. CDCs are the only type of community group that could operate MESBICs because they receive substantial equity grants from the Community Services Administration.

The Small Business Administration serves as the focal point for directing federal contracts from various agencies to firms in which socially or economically disadvantaged people hold a majority share. The Section 8(a) Minority Procurement program has been the most controversial of all SBA programs. Problems include political abuse of the program, and the misuse of low-income minorities as "fronts" for white investors who actually own and run the company and receive the profits. There has also been a lack of enterprises "graduating" from the program into positions of "self-sufficiency." In ten years, 3,726 firms have entered the program. Of these companies, only 149 have "graduated" to a position where 8(a) contracts were no longer necessary. Only a few of these are showing a profit.

Delays by SBA personnel in processing certifications of contract awards have cost minority firms millions of dollars. For a business in a marginal position, this indecision creates havoc. The company does not know, for example, whether to order raw materials or when to hire staff. Another major problem with Section 8(a) is the lack of accompanying business development assistance. Recipients are disadvantaged in many cases because they lack certain business skills, especially accounting skills and knowledge about how to obtain financing. The Minority Business Development legislation of 1978 mandated that the program shall assist 8(a) businesses in developing comprehensive business plans. The assistance is to include monitoring the success or failure of a venture and bonding assistance.

SBA Equal Opportunity Loans (EOL) recipients are essentially the same constituency as participants in the Section 8(a) program. In the early seventies, EOLs were being pushed on potential minority entrepreneurs, which led to the bankruptcy and boarding up of many nonviable businesses. Entrepreneurs now attempt to avoid the EOL program as a source of capital.

The Office of Minority Business Enterprise (OMBE) at the Department of Commerce was established during the Nixon Administration. Originally, OMBE served mainly as an image-making agency for "Black Capitalism." In early 1970, Secretary of Commerce Maurice Stans went on a nationwide series of community visits to urge corporations to establish MESBICs. He spoke to minority organizations and newspapers urging them to support the Administration's push for more minority entrepreneurs. OMBE's "technical assistance" role in the early 1970s was to direct minorities to the SBA financing programs.

Opposition to "Black Capitalism" as represented by OMBE began with activists in the community economic development movement who saw their programs slashed by the same Administration.[25] The critics argued that a comprehensive approach was needed for poor neighborhoods. Encouraging individual enterprises would not be sufficient to reverse the factors that made many minority neighborhoods poor, they continued, nor would these businesses succeed without capable management.

OMBE had nowhere to go but up from its early days. It now provides valuable assistance to minority enterprises despite its limited resources. In 1972, OMBE received its first funding to contract with professional organizations to provide management and technical assistance. At first, OMBE used the scattershot approach of supporting a number of Business Development Organizations (BDOs). The proliferation of BDOs meant that no one organization had the financial capacity to hire adequate staff or provide adequate services. In 1975, OMBE established a program of "one stop center," consolidating several BDOs in a city into one. The "one stop" BDOs provide a range of services including initial business counseling, assistance in preparing financial proposals, feasibility studies and market analysis, matching minority businesses with potential purchasers, assistance in preparing contract bids and obtaining bonding, technical assistance in inventory control and financial management, and general business training.

In its policy statement for Fiscal Year 1979, OMBE reported that in five cities—its "one-stop" program has been a distinct success. The agency plans further consolidations. However, where two BDOs in an area service different constituencies for example, a black community and a Hispanic community which have different needs, there will continue to be separate BDOs.

Although the "one stop" BDO program has been a success, certain difficulties should be noted. The District of Columbia Reinvestment Commission criticized OMBE's regulation prohibiting BDOs from charging fees for services. OMBE's funding is limited: $29 million for fiscal year 1978; $31 million for fiscal year 1979. To the extend that BDOs are dependent on OMBE's limited funding, they themselves are limited.

The Small Business Administration has several programs that serve minority entrepreneurs. Mismanagement, abuses, and the lack of an effective technical assistance component has made the SBA programs more a hindrance than a help.

The Office of Minority Business Enterprise has developed a reasonable grasp of the needs of minority enterprises. While business and technical assistance funds are limited, OMBE's establishment of one stop Business Development Organizations represents a valuable use of scarce resources. OMBE's recognition of the need for minorities to enter growth industries such as energy, health care, and communications is an achievement blurred by a lack of sufficient resources for implementation.

Cooperative Models of Community Ownership

Another vehicle for local ownership opportunities is the cooperative. Cooperatives can be divided into two categories. The consumer cooperative operates on the principle that those who purchase goods from the co-op own it. The producer cooperative is owned by the producers of goods and services.

Consumer Cooperatives

The number of cooperatives has grown rapidly since the early 1970s. Today, approximately 1,000 are in business, compared with only 277 six years ago.[26] Consumer cooperatives are a response to rising inflationary pressures on households. College communities such as Berkeley, California and Cambridge, Massachusetts were the initial sites. Gradually, the idea has spread to low income communities.

The Fort Greene Cooperative in Brooklyn was formed by one thousand residents of a deteriorated area. When the local A & P moved out, the organization formed the Fort Greene Food Cooperative to replace it.[27]

Cooperative ventures have the potential of stimulating additional investment. The Eau Claire, Wisconsin, Chamber of Commerce offered evidence to the Senate Banking Committee that local private business was boosted by the presence of a food co-op in Eau Claire.

Despite the potential of cooperatives to serve low income neighborhoods, they encounter many obstacles. Most bankers are traditionally suspicious of nonprofit ventures. Even a large cooperative such as the Group Health Cooperative of Puget Sound with assets of over $78 million, has had problems obtaining loans.[28] Until the recent passage of the National Consumer Cooperative Bank Act, public financing sources were also scarce. The West Bank CDC in Minneapolis received $70,000 of Community Development Block Grant money, but only after eighteen months of deliberations by the city council.[29] The Small Business Administration (SBA) has traditionally avoided financing cooperatives.

As a cooperative increases in size, it may reach the point where it becomes little more than another private enterprise and loses its close connection to the community. The Berkeley Cooperative has 90,000 members, few of whom actually participate other than by purchasing food there.[30] Gene Clifford of the Cooperative League, a major trade association and research arm of the cooperative movement, has testified that the smallest forms of cooperatives tend to be the most efficient in terms of actual savings. Buying clubs established on a small neighborhood basis cut costs through the use of volunteer labor and the purchase of particular goods in set quantities.[31]

While there are examples of additional businesses developing around cooperatives and suppliers increasing their commerce through cooperatives, other merchants fear the supposedly "unfair" competition of cooperative ventures. Organizations such as the National Federation of Independent Businesses have specifically targeted cooperatives as a threat to existing small business in a neighborhood. The Commission's research does not support this claim. Most neighborhood-based cooperatives have formed in response to an outright lack of services or competition.

Producer Cooperatives

Producer cooperatives are not common in the United States. During the New Deal years, several unions sponsored such businesses. The most common example of producer cooperatives are the dairy co-ops of the Midwest created to benefit groups of farmers over a wide area.

The Commission sponsored a study by the Harvard University Neighborhood Economic Development Workshop of the effort to keep Kasanof's Bakery in Boston open as a producer cooperative. Kasanof's Bakery was located in Rosbury area, a predominantly black community. Of the 285 employees, 20 percent lived in the Roxbury area while another 20 percent lived within the Boston city limits. The company produced a popular rye bread. However, the owners, based in New York City, saw their production costs steadily rising and little or no growth potential for the firm. The owners chose to close down the bakery. A month after the closing, a team of consultants experienced in finance and management investigated the possibility of reviving Kasanof's as a worker-owned and managed cooperative enterprise. The plan failed because it was too late and too little: There was insufficient time and there were insufficient funds to negotiate an arrangement to acquire the business. Both public and private capital sources were interested in financing the venture, but not until another party made the first commitment. This lack of timely funding meant a loss of 150 local jobs; $2,000,000 of yearly wages in the metropolitan economy, a substantial portion of which would have been spent in Roxbury; $40,000 in property taxes for the city of Boston; $1,100 in corporate income taxes for the state of Massachusetts and considerable public expenditures in unemployment compensation and welfare benefits by the state.

One positive result of the Kasanof's episode was a realization on the part of the Massachusetts state government of the necessity for planning assistance. A proposal to have the American Friends Service Committee (AFSC) act as temporary consultants in such situations has been approved by the Massachusetts Department of Community Development, and now awaits federal funding. AFSC will provide technical assistance to organizations that wish to retain local businesses through forms of community ownership. Another measure before the Massachusetts legislature this year would mandate a six-month notice of plant closings. The fact that Kasanof's bakery was actually inoperative during the effort to establish new ownership was a major barrier to establishing credibility with potential financing sources. If there had been more time before notice of the plant closing, a transition plan could have been implemented before the actual shutdown took place.

Community Development Credit Unions

In the 1960s, the Office of Economic Opportunity envisioned community credit unions in low income neighborhoods as an answer to the credit shortages of such areas. OEO founded approximately 500 community credit unions, but less than half of them still exist today. The Board of Directors of these credit unions largely consisted of poor people with scant expertise in the administration of a financial institution. Community credit unions were viewed as a "social" program, both in the federal government and in poor neighborhoods. There was little pressure on the defaulted loans.

The OEO program was disbanded. Some community credit unions continued. Those that survived faced many obstacles. Inadequate capitalization and regulatory obstacles limited most community credit unions to small consumer loans. In recent years, efforts have been made to transform these marginal community credit unions into a community development credit union (CDCU) that could have a significant impact on the economy of a neighborhood. All credit unions are based on "common bonds" joining a particular constituency together. The common bond of the community credit union is residential. According to the National Credit Union Administration, the federal regulatory agency for credit unions, communities of 25,000 population or less can meet residential bond standards.

Community Development Credit Unions—Their Role in the Neighborhood Economy

A poor neighborhood is not recapturing and utilizing its income for the neighborhood's benefit. Financial institutions have the critical power to determine whether money is reinvested in a neighborhood or transferred out. The community development credit union by law cannot disinvest in its neighborhood. The membership of credit unions is the only possible recipient of credit. Since membership is limited to neighborhood residents and businesses, loans can be directed only to them. Capitalization of the CDCU is not limited to neighborhood residents; non-member deposits from corporations, foundations, and other credit unions are allowable. Non-member depositors earn interest on their deposits.

Federally-chartered credit unions have a 12 percent maximum limit on interest rates on loans. In poor communities, many banks do not make consumer loans and others will not make residential and commercial loans. People go to finance companies and pay interest rates of eighteen to twenty-five percent. The community development credit union can save neighborhood residents from both the stigma of rejection by a bank engaging in geographic redlining and the burden of excessive interest charges.

Community development credit unions do redline; but Benjamin Johnson of the Community Development Credit Union Institute, a technical assistance arm of the National Center for Urban Ethnic Affairs, told this Commission that CDCUs redline on a personal basis, not on the basis of the neighborhood. The CDCU will consider every possible arrangement that could make a loan possible. CDCUs have been allotted employees to provide financial counseling to prospective borrowers.

Two of the most successful community development credit unions in the United States are CASA in Springfield, Massachusetts, and Amigos Unidos in San Juan, Texas. CASA, which is linked to the Brightwood Corporation (the local community development organization), was one of the credit unions funded by the Economic Development Administration to demonstrate how to increase the assets of such credit unions and their capacity to make loans in their neighborhoods. Technical assistance from the National Center for Urban Ethnic Affairs, and Alternative Economics, Inc., helped channel an additional $97,000 in nonmember deposits into CASA. Initial investments were leveraged further; today CASA's assets exceed a million dollars. It has written 20 mortgages in the Brightwood area, which currently has the highest percentage of new mortgages of any neighborhood in Springfield. It has also loaned $20,000 to the Brightwood food co-op and handles various community services including food stamps, utility bill collection, and check cashing.

Amigos Unidos has received technical assistance similar to that given CASA. It has financed the construction of 40 units of new housing and made a series of business loans to bolster the commercial economy of the Hispanic community in San Juan. Other community development credit unions are offering services adapted to their communities. Ashland, Oregon's credit union makes loans to finance energy conservation projects and automobiles with high gas mileage. The Federal Insurance Administration has been negotiating with credit unions to sell essential crime insurance to local merchants for a finder's fee. The potential impact of well established community development credit unions on neighborhood economies can be substantial.

A relatively new concept, Community Development Credit Unions face several major problems. Financing is often insufficient to hire a skilled staff or to train local residents. The National Credit Union limits CDCUs to a maximum loan equal to ten percent of total assets.

The community itself also needs to understand the credit union as a financial institution and as a way to mobilize community resources. Most people deposit their savings in a bank as opposed to a credit union. If the bank is not returning dollars to people in a community in the form of credit, they should know that they have an alternative that will respond to their needs. The organizers of a CDCU have to publicize its existence and purpose to neighborhood residents.

The National Credit Union Administration, with the Community Services Administration, has proposed to Congress legislation for federal chartering of community development credit unions, training credit union staff in financial management, and increasing the capitalization of credit unions. By converting existing credit unions and establishing new unions, NCUA and CSA hope to work with 200 federally chartered community development credit unions within the next three years. The 95th Congress passed the authorization but no appropriations for the program.

Federal Support for Cooperative Economic Development

With the 95th Congress' enactment of the National Consumer Cooperative Bank Bill, cooperative enterprises now have a principal source of financing and technical assistance. The Act establishes a National Consumer Cooperative Bank which will begin operations in 1979, providing long term loans and technical assistance to both established cooperatives and groups wishing to start co-ops. The Self-Help Development Fund of the Bank will be specifically targeted to provided assistance to people interested in forming low income co-ops. Twenty-five million dollars a year is authorized for the fiscal years 1979 to 1981. The President of the Cooperative League, Stanley Dreyer, commented on the Self-Help Development Fund:

> This fund, coordinated with the technical assistance and bank programs, will help these low income Americans develop their own resources—under their own ownership and control. We can look forward to an expansion in the number of minority business enterprises as a result. This new revitalization will encourage other small businesses to return to the area, creating added job and business opportunities.[32]

Community groups are concerned that the National Consumer Cooperative Bank serve the needs of low and moderate income neighborhoods. Language in the legislation establishing the Bank called for it to make "best efforts" to assure that 35 percent of all loans outstanding at the end of each fiscal year be to low income cooperatives or cooperatives primarily serving low income persons. The legislation is unclear whether this means 35 percent of the total number of loans or the total dollar amounts of loans. Several large scale projects such as 1,000 units of low and moderate income housing could fulfill a 35 percent total dollar standard.

Two questions about the Self-Help Development of the Bank are of particular interest to the National Commission on Neighborhoods: Will the fund assist low and moderate income people, and what outreach will be done to draw low and moderate income groups into the program? One special need is for assistance to neighborhood groups interested in starting cooperatives. Self-Help Development Fund and bank representatives should be based in the standard ten federal regions and should have significant outreach capacity to serve low income neighborhoods in the inner city and in rural areas.

The proposed program of the National Credit Union Administration and the Community Services Administration to capitalize, train, and charter 200 credit unions as community development credit unions with a $12 million appropriation was not brought to a final floor vote in the 95th Congress. Federal Community Development Credit Unions will be chartered by NCUA but there are presently no funds for technical assistance and capitalization. The National Consumer Cooperative Bank, through its Self-Help Development Fund, will be able to offer some training and technical assistance to credit unions. It will not provide financing. A provision to enable credit unions to receive loans from the Consumer Co-op Bank was removed from the final legislation. National Credit Union Administration staff have remarked to the National Commission on Neighborhoods that their Administrator, Lawrence Connell, wishes to emphasize credit unions as a cooperative institution as well as a financial institution.

National Credit Union Administration has been involved in the Federal Interagency Task Force establishing the National Consumer Cooperative Bank. Federal programs for credit unions may result from partnerships between NCUA and the Federal Task Force, as opposed to uncertain status of the NCUA/Community Services Administration joint effort. The uncertainty of CSA's future status, given the Administration's current reorganization plans, may make the former partnership more lasting.

Federal support for community development credit unions has been enhanced by the increased efforts of the National Credit Union Administration. Unfortunately, an NCUA proposal to train and capitalize 200 credit unions seems to have been shelved by Congress and the Administration. The National Consumer Cooperative Bank does have the ability to provide technical assistance to credit unions, although financing authority is lacking.

Appropriate Technology and Energy Conservation as Community Ventures

Disadvantaged neighborhood economies are often compared with the economies of underdeveloped nations. Modern capital intensive industries do not take advantage of manpower, the chief resource of these economies.

Appropriate technology for poorer and declining neighborhoods accords with the following principles:

- It requires small amounts of capital to purchase.
- It is simple and inexpensive to construct, repair, and maintain.
- It encourages small scale operations in business.
- It requires little energy to build and operate, and where possible uses renewable instead of non-renewable sources.
- It is ecologically sound and protective of human health.
- It encourages group endeavors and social cohesion on the community level.
- It is labor rather than capital intensive.[33]

Community organizations can be useful in pursuing appropriate technology ventures. To date, the primary emphasis has been on energy conservation projects. The Community Services Administration weatherization programs, aided by local allocation of CETA workers, have enabled a number of community action agencies to bring retrofitting and other energy-efficient measures to poor and elderly households. The CSA program allocated over $100 million in projects in the current fiscal year (1979). These programs are more social service than income generating. Still, the financial savings from a more energy-efficient home can increase personal income and can contribute to the aggregate income retained by neighborhoods.

The Commission has reviewed the San Bernardino Westside Community Corporation as a mechanism of appropriate technology in poorer neighborhoods. This organization was founded by a group of welfare mothers and is currently involved in a solar energy project that will provide heat and hot water for the homes of low income families. In the April, 1978 newsletter of the National Center for Appropriate Technology, Valerie Pope, Executive Director of the San Bernardino organization explained the rationale for the project:

> Too often in the past, we were the last to know and by the time we find out, the technology was assimilated by a very select group. We were out in the cold, so hopefully, we can get in on the ground floor this time and be part of making decisions about what happens to our own lives.[34]

Neil Seldman of the Institute for Local Self-Reliance has outlined how community organizations can establish cellulose plants as subsidiaries and purchase all the insulation necessary to carry out a weatherization project from them. Or through the Small Business Administration Section 8(a) program, a minority-sponsored community organization could contract with the federal government for the purchase of cellulose or other energy conservation materials. The Institute found that with an investment of $25,000 to $50,000, a cellulose operation could generate $150,000 a year after taxes in its second year of operation. He warned, however, that drawbacks exist. The cellulose market is growing rapidly; any group planning to enter production should do so quickly and at the same time, should have assurance that purchasers and raw material suppliers exist. Other problems may arise from federal, health, and safety regulations of chemicals used in producing cellulose and quality control in product manufacture.

To date, linkages between appropriate technology programs and community development corporations are limited. In part, this is due to problems within CSA. The relationship between Title VII CDC program and the energy conservation programs is strained. Title VII CDCs involved in appropriate technology include Impact 7, a rural CDC in Wisconsin involved in an energy insulation program, and the Black Economic Union (BEU) in Kansas City, which has submitted a proposal to CSA for the use of solar energy retrofitting and other conservation procedures in the housing units owned by BEU. Too often, the directors of a CDC would prefer a shopping center or industrial park development to an energy related project where the economic benefits to a community are very real, but not as visible.

Energy conservation itself is a limited field: only so many buildings can be retrofitted; only so much insulation can be produced. The creation of additional production oriented labor intensive industries is important. In Hattisburg, Mississippi, the National Center for Appropriate Technology has funded an effort to operate a community cannery. The Hartford city government has examined a range of appropriate technology options to lower the cost of food production.

Federal Support for Appropriate Technology

Federal programs that encourage the development of new technologies and industries have been nearly nonexistent in poor and declining neighborhood economies. These growth industries can be either labor intensive or capital intensive. Labor intensive industries are especially suited to poor and declining neighborhoods since they rely heavily on untrained labor, which is all too available in such communities.

The Community Services Administration

CSA sponsors energy conservation programs through Community Action Programs (CAPS). CAP workers in low income neighborhoods conduct energy audits for the poor and elderly to locate possible savings on utility bills. In some cases, CAP programs will carry out the insulation of the home.

The Community Services Administration funds the National Center for Appropriate Technology (NCAT) as part of its "Emergency Energy Conservation Services Program". The NCAT provides technical assistance and small grants. It has funded a wide range of community based programs including energy conservation, resource recovery, and community food production programs.

Appropriate technology can be a major strategy for the creation of new economic development opportunities suited to the skills of neighborhood residents. Federal support is insignificant, although the limited resources in existence have been for the most part well utilized.

State Support for Neighborhood Economic Development

State governments have only recently been involving themselves in urban economic development strategies. Traditionally, states have structured their systems of taxes, expenditures, and regulations to attract industry and commerce. The mix of taxes, expenditures, and regulations can affect a company's choice of locality between states and within a given state. Yet very few states have developed policies to spur economic development in urban neighborhoods.

State tax policy to attract business is a product of two myths and one reality. The first myth is that tax incentives offered stimulate economic development. In fact, they represent a gift or an equity granted directly to private, usually larger concerns. A review of recent economic literature and business experience reiterates the fact that tax incentives granted by state (and local) governments are generally too small to affect substantially the location decisions of corporations.[35] In Missouri and Ohio, which the Commission visited, community groups and local small businessmen criticized such tax incentives for forcing a higher property tax burden on homeowners and neighborhood enterprises. School systems which rely primarily upon the property tax for their revenues are experiencing a severe financial crunch. Businesses looking for a location with good schools are often forced to look elsewhere.

The second myth is that the level of corporate taxation is a real factor in stimulating economic activity in a state. All corporate taxation represents a very small cost of doing business. Fifty percent of state corporate taxes are paid by the federal government as a deduction against federal taxes. In most instances, corporate taxation acts as a sales tax, in that it is passed on to the consumer. This inhibits economic development only to the extent that as state taxation significantly raises the cost of labor and the cost of living, it also significantly increases the cost of doing business within a state.

The structure of the state tax system does have a strong impact on location within a state.[36] To the extent that older cities are dependent on a property tax, in a situation where their tax base is decreasing and costs are increasing, the structure favors newer, more affluent suburbs. Tax policies are probably the easiest for government to enact. The cost of these policies to taxpayers in general is not as clear as it is for an expenditure program.

State expenditure policies, like federal procurement policies also can be targeted to benefit low and moderate income neighborhoods. Massachusetts has instituted an innovative finance mechanism for community economic development. In addition to $10 million for this program, the state has an annual budget of $4 billion which is also considered a source of funds for economic development.

State Urban Policy Strategies: Summaries of Five Cases

Several states have developed or are in the process of developing comprehensive urban economic development strategies. It is difficult to subject these strategies to rigorous analysis. Most of the programs have only been in effect for a year or so, and, even when targeted to urban areas, provide little assurance that people in low and moderate income neighborhoods will benefit from them. Some mechanisms established may touch upon declining cities, but still may generate no interest in severely depressed areas. In Connecticut, although the Connecticut Development Authority has broad loan authority targeted to urban areas, only two of its loans from July 1, 1973 to August 31, 1978 went to firms locating or expanding in the city of Hartford. Only 24 new jobs were created in Hartford due to these loans.[37]

Of the "jobs" created by various programs, the National Commission on Neighborhoods' research confirmed that even in relatively advanced states, statistics are based more on the developers' original estimates than on any monitoring and follow up by state or local governments. Geographic information on where jobs are located may be on file, but tabulation is done on a citywide rather than a neighborhood basis. Only Massachusetts' Community Development Finance Corporation examines the jobs created at a neighborhood level. In other programs such as California's Regional Job Creation Corporations program, one can assume that since the prime beneficiaries are minority small businesses, a substantial number of them are located in inner city neighborhoods and hire people from the area.

The Commission's survey of five states with comprehensive strategies found particular programs with potential for directing economic development to distressed neighborhoods. The Commission found the following approaches particularly noteworthy:

1. California's Regional Job Creation Corporation guarantees conventional loans to small businesses. The guarantees currently provided are for firms unable to get conventional financing even using SBA programs. Most businesses served are minority-owned. It is significant to note that until a technical assistance component was added to the program, many defaults occurred. Since technical assistance was made available, then default rates have substantialy dropped.

The California Term Loan Program will guarantee coventional loans. Banks and borrowers pay a loan arrangement fee (2-5 percent) which is matched by the state and put into a loan loss reserve fund managed by the State Banking Department. The program is unique in that much of the paperwork created by programs like SBA's loan guarantees is avoided. If this program has access to a secondary market for long term loans and reimburses the borrower's share of the fee upon full payment, it will not only have addressed certain critical financing needs in California, but should also be adopted nationally.

2. Connecticut's Urban Jobs and Development Act includes numerous incentives for businesses locating in urban areas. Two provisions unique to Connecticut are a system of rebates to localities for revenues lost from tax abatements and 65 percent funding for city acquisition of industrial park land in "distressed municipalities". The Commission was told that tax abatement reimbursements should also be targeted specifically for neighborhood revitalization activities, thus creating a balance between large development and reinvestment.

Another provision in Connecticut establishes a credit of 25 percent against the state corporate business tax for ten years for income generated by a new investment in an "economically distressed" city. The state believes that this combined with tax abatements and the job creation grants of $500 in the Act, may provide a total subsidy that in fact will impact on corporate decision-making.

3. The Connecticut Development Authority operates programs in conjunction with the Connecticut Product Development Corporation (CPDC). The Connecticut Development Authority subsidizes interest costs through revenue bonds. This Commission's consultants concluded that these subsidies are not economical. One study found that interest rate reductions of 22 percent reduced the cost of production by only .88 percent. A more promising program is the CPDC's incentives for new market development. CPDC will loan up to 60 percent in risk capital for a new product venture to small companies. The return on investment is realized through product royalties up to five times the initial investment. If no profit is realized, no payback is necessary. The Connecticut Product Development Corporation projects that once the program reaches the manufacturing stage, investments of $50,000 will generate $1 million in sales and 20 jobs. While CPDC has not targeted this program in the past, it may be ideally suited to the needs of urban neighborhood. Many older factory buildings in or adjacent to such neighborhoods have the potential to serve as incubators for small companies. (The CPDC program is virtually being duplicated in Massachusetts as the Technology Development Corporation.)

4. Coordinated planning is important to any state urban policy. In 1975, the State of Massachusetts began developing a state growth policy focusing on revitalization. Each community in the state was invited to contribute its own recommendations. The State's report, *Massachusetts Growth Policy Report,* dealt with neighborhood revitalization including recycling buildings, directing growth to existing areas, and reinvesting in housing in urban neighborhoods. The success of some Massachusetts programs like the Urban Job Incentive tax credit program for new employees and the Section 121A Tax Abatement program can be questioned. If these programs are developed in conjunction with related programs and geographic targeting, a comprehensive policy can work. When Massachusetts chose not to provide a highway connection so a major developer could locate a shopping center in the suburbs outside the City of Pittsfield, the same developer constructed the center in downtown Pittsfield.

Massachusetts is one of the few states that fully recognizes community development organizations as legitimate partners in economic development. The Massachusetts Housing Finance Agency is a leader in utilizing such organizations in housing development. The State Manpower Services Council has been one of the most innovative in the country in using CETA funds as capital for creating permanent, private sector jobs, often under the sponsorship of community-based development organizations. Innovation has been limited principally by federal regulation.

The Massachusetts Community Development Finance Corporation

(CDFC) operates in geographically depressed areas. It is the first American development bank at any governmental level to invest equity in for profit enterprises as well as in nonprofit community ventures. It is one of the few development banks targeted to low income and minority areas. This equity and/or debt capital is provided to Community Development Organizations sponsoring projects to create primary employment in depressed areas—projects that cannot be funded in the private market. CDFC has limitations. It serves concerns whose need is access to capital more than cost of capital. Its capitalization is only $10 million. Nevertheless, CDFC is a pioneer in sponsoring community-based economic development. Its progress should be followed closely by other states, as well as by the federal government.

5. Massachusetts' regulatory agencies have also been quite innovative in regulating and directing the flow of capital to inner city neighborhoods. A recent decision by the State Banking Commissioner prevented a state chartered bank from closing one of its main branches in an inner city neighborhood. The State Insurance Department has been equally vigorous in opposing insurance redlining.

6. Michigan has a wide ranging program for establishing Economic Development Corporations (EDCs) in all localities. These are quasi-public corporations with authority to assemble and develop parcels of land for commercial and industrial development. EDCs can also grant tax abatements. This can be either a help or a hindrance to neighborhood development. One danger is that without accountability to local authorities and surrounding neighborhoods, these quasi-public entities have carte blanche to take over homes and small businesses displacing homeowners and small entrepreneurs alike. In one city, not in Michigan but in St. Louis, Missouri, the Commission visited, we saw how abuses by these quasi-public entities could displace people, even without any assurance that the originally planned project would be finished. Michigan currently has proposed amendments to increase tax abatements to urban areas. Used wisely, this could direct new economic development to distressed neighborhoods; if abused, it could destroy these neighborhoods.

7. New Jersey has recently initiated an effort to focus on revitalization of urban areas. A task force established by the governor is currently assessing the impact of federal and state programs. There are several state programs that currently attempt to stimulate economic development. The Fox-Lance tax abatement program, like many others, does not discriminate between who will pay for the program and who will benefit from it. It is targeted to "blighted" areas, a code word that many neighborhoods and other communities resist as a self-fulfilling prophecy of doom. The state has established an Office of Technical Innovation to provide technical assistance to developers of new products, but no financing is available.

The New Jersey Economic Development Administration's urban industrial park program does not have real potential for helping distressed neighborhoods. Through the urban industrial park program, sites in Newark, Elizabeth, and Jersey City are being prepared with infrastructure improvements financed with revenue bond monies, and declared eligible for tax abatements. The Elizabeth site has been the most successful; it appears that all the acreage involved will be sold. In Jersey City, some sites will need to be leased. Newark's site is being marketed by the City Housing Authority. In the Elizabeth project, it should be noted, many firms are relocating from other areas of the city. Thus, the park might be viewed more as a business retention project than as a source of new jobs. Where such industrial parks are developed, special marketing stategies should be designed to match new firms with local labor, using CETA funds where possible.

An important New Jersey regulatory reform, the 90-day Permit Law, requires certain state agencies to review and decide on all applications for permits within 90 days. This provision has drawn praise from businessmen, especially those concerned with environmental review. Provisions are needed to assure notice of projects under review to public interest and other groups, including neighborhood organizations.

A primary requirement of any state economic development program is advanced warning of impending plant closings. In Massachusetts, shoe workers returning to work on Monday morning were greeted with a locked factory gate. In Youngstown, Ohio, the Lykes Corporation began disinvesting in the Campbell steel works almost from the day it purchased the facility. Eventually, large parts of the plant were abandoned and more than 4,000 workers lost their jobs.

Without a sophisticated early warning system it is impossible to even estimate the number of jobs that are threatened by layoffs or plant closings. Wisconsin has passed legislation that would require a firm planning to close their plant to provide 60 days advance notice. In Ohio and Massachusetts, legislation has been submitted that would require one year's advance notification and compensation payments to the affected workers and communities.

The Center for Community Economic Development has completed a report on "Community Economic Development and the States" by Carl Sussman and Stephen Klein. Sussman and Klein's fifty state survey has confirmed that there are relatively few state programs dealing with neighborhood economic development.

Perhaps the most promising findings of the study was the "remarkable amount of program transfer between states". The Massachusetts Community Development Finance Corporation bill was narrowly defeated in Illinois. Pennsylvania's Neighborhood Assistance Program has been replicated. Some of the findings of the 50 state survey follow.

The Minnesota Community Development Corporation is one of only two state agencies in the country (Massachusetts' Community Development Finance Corporation is the other) which expressly assists community-based economic ventures. It provides both planning and equity grants.

The Comprehensive Employment and Training Act allows governors four percent of their allocation as discretionary funds. This chapter has noted Massachusetts' leadership in using the funds. California has allocated some of the discretionary funds to the East Los Angeles Community Union to create 200 positions in job training and work experience programs. Another community group, the West Side Planning Group in Fresno, is proposing to use $400,000 in discretionary funds for farm worker training programs.

The State of Kansas has an innovative development finance mechanism, the Kansas Development Credit Corporation (KDCC), that operates with pooled funds from 427 member banks. This allows KDCC to make loans that individual institutions find too "risky". The Kansas Development Credit Corporation also provides counseling to loan clients. Most significant, however, is the corporation's secondary market for SBAguaranteed loans. Member banks can retain their liquidity, while making longer term loans. This development finance mechanism could be combined with a more efficient guarantee program than that of SBA, for example the California Term Loan Program. Capital availability to small business, especially in revitalizing neighborhoods may rise very substantially; some form of subsidy may be needed, however, to defray the increased cost of capital due to servicing fees.

At present, seven states consciously use their purchasing power to attain various social and economic objectives. Minnesota, Massachusetts, Illinois and Tennessee all require that 5 to 10 percent of state purchases be made from small businesses. (It should be noted that the definition of small business at the state level refers to smaller concerns—25 to 50 employees usually—than do federal definitions up to 500 employees.) Often complex regulations make public contracts undesirable for small businesses. Slow payment is also a severe problem for companies with limited cash flow. One possible answer would be for states to contract with Business Development Organizations to seek out minority and small enterprises in urban areas as suppliers. The organizations would be responsible for monitoring expenditures and the cost of production. Upfront payment would be made to the organizations which would then pay individual contractors on prompt, pre-arranged schedules.

Legal, Fiscal, and Administrative Obstacles to Neighborhood Self-Reliance

Overregulation

An Overview of Overregulation

In the course of its work, the Commission identified thousands of neighborhood organizations throughout the nation which are working hard to improve the quality of life for their members. Although many are primarily concerned with social and economic development, nearly all are committed to the physical improvement of their neighborhoods. An especially important element of these neighborhood development programs is the preservation, construction, and rehabilitation of decent, affordable housing. Increasingly, neighborhood organizations themselves are taking the lead in developing housing in the cities. This is a trend which the Commission believes should be supported as strongly as possible.

In their attempts to establish local housing conservation programs, neighborhood organizations invariably discover that their efforts are constrained by a frustrating, often incomprehensible framework of laws, ordinances, codes, regulations, and bureaucratic practices. While laws and rules are necessary to regulate all complex economic and social processes, many of these regulations needlessly frustrate the efforts of low and moderate income people to help themselves. Most of these rules were not designed to harm lower income people, but their effect is to place a much higher burden on people who are least able to cope with the system. The Commission identified what it feels are the key problems which regulation of the housing market poses for low and moderate income people and their neighborhood organizations. Specific changes are suggested, but the Commission's principal goal is to suggest a framework for efforts to reduce obstacles of self-improvement by low and moderate income citizens.

The Commission examined the following obstacles to neighborhood-based housing programs:

- Prohibitively high housing costs: Many neighborhood groups cannot afford to pay even average prices for new or rehabilitated housing. They must rely on government subsidies, "sweat equity," and volunteer labor to reduce costs. In many cities, costs are artificially increased by complicated building code requirements which the poor cannot afford.

- Lack of new capital for housing construction and rehabilitation: Recent changes in federal tax laws have deterred traditional investors from inner city housing development. Public investments have been insufficient to provide needed capital.

- Inadequate management experience in operating and maintaining housing projects: Many low and moderate income people lack the skills necessary to operate complex physical development programs. Government assistance has been inadequate in providing necessary support and in training community administrators.

- Limited housing opportunities for poor and minority citizens: Because of the effects of both exclusionary practices by suburbs and of racial discrimination, many low and moderate income people do not have access to decent housing outside of city neighborhoods. Within their neighborhoods, they are constantly subject to the predatory practices of real estate speculators.

- The inequities of the existing system of maintaining city services: The property tax places impossible burdens on low and moderate income people in maintaining their homes. It also deters new development in the inner city.

- Complicated legal rules which prevent local governments and lenders from seizing and recycling economically troubled property: Laws limiting the power of tax and mortgage foreclosures often result in the abandonment and destruction of valuable housing resources.
- The confusing, archaic and costly system for transferring property: The requirements of title searches, insurance, and legal fees involved in buying and selling property increases the costs of owning land, especially for neighborhood organizations.

The Commission's recommendations are intended to eliminate unnecessary regulations. Where laws cannot be repealed, a special effort must be made to help low and moderate income people overcome their effects. In general, the Commission recommends that state and municipal governments make a concerted effort to restructure applicable laws, codes, ordinances, and administrative systems to sweep away unnecessary obstacles to neighborhood revitalization, and to encourage citizen-initiated and controlled revitalization activity. The Commission specifically recommends that the federal government redesign its laws (particularly the Internal Revenue Code) to facilitate neighborhood revitalization. Federal resources should also be invested in research and in the funding of demonstration projects designed to encourage necessary state and local legal and administrative reforms.

The National Commission on Neighborhoods emphasizes that even a substantial reduction of legal regulation is not a solution to the problems faced by neighborhood residents throughout the country. Other factors, operating on a regional or national scale—national economic conditions, urban congestion, pollution, racism, crime, changing residential preferences and lifestyles—clearly have as much or greater influence over the future of neighborhoods than the reforms discussed in this chapter. Nonetheless without a reduction in needless regulation of property, the extent of neighborhood revitalization will be significantly reduced in many cities, even in the face of favorable trends in the economy and in society. In the opinion of the Commission, the reduction of unnecessary obstacles to neighborhood-based housing revitalization is an essential companion strategy to any plan to increase the capacity of neighborhood residents to solve their own problems.

Recycling Neighborhood Properties

In cities throughout America, entire neighborhoods have been caught in a cycle of decline, deterioration, and abandonment. The costs of this depressing process in municipal services, in capital investment, in housing and in the destruction of neighborhood spirit have been vast, but the cycle can be broken. The Commission has seen scores of instances where neighborhood people have taken the initiative to protect their own economic and social investment. As this chapter indicates, there are many conditions for a successful reversal of neighborhood decline. One problem almost certain to be met is that of recycling properties back into the commercial housing market before they are abandoned. This problem can be solved if local governments and neighborhood organizations develop: a short-term program to deal with abandoned properties and a long-term plan to deter abandonment and neighborhood decay.

A. The Abandonment Problem.

An abandoned building is perhaps the most obvious sign of neighborhood decline. It is a matter of great importance for neighborhood residents that abandoned buildings be quickly returned to productive use. Once abandonment spreads, the task of revitalization becomes much more difficult. Any campaign to stop abandonment brings neighborhood groups into contact with a complex set of laws and practices associated with property ownership. Among the most complex and confusing of these laws are those governing tax and mortgage foreclosures. The delays caused by foreclosure rules are a significant obstacle to recycling neighborhood properties.

The Tax Foreclosure Process

The rules governing forfeiture of property to the government for nonpayment of property taxes reflect an agricultural past. The law was designed to protect farmers from losing their land because of a financial panic or because drought had ruined crops. Tax foreclosure administration varies so greatly among the states that the description which follows will not accurately portray the process in any one state. Nonetheless, it illustrates the problems common in a great many jurisdictions. The foreclosure process is complex and confusing. It is especially notable for its delays, its costs, its bureaucratic congestion, its archaic legalities and its reliance on lawyers. Bureaucratic delays often add years to the time before foreclosure proceedings begin. It is not uncommon for four or five years to pass before official action is taken. During this time, the owner may keep possession of property or redeem it by paying back taxes. Foreclosure rules are designed to protect the debtor, not to speed the transfer of the property to new owners. For instance, until recently, most jurisdictions were required to try to recover the debt personally from the owner before they could attempt to seize the property itself. This debt collection action, called an "in personam" action, requires elaborate and expensive attempts to notify the former owner of the pending action. Notification is often impossible and mistakes are often made. The city taxing agency is seldom interested in returning the property to productive use. If the property is seized, the agency is mainly concerned with recovering the debt. It offers the property at a tax sale at which it can be bought by the highest bidder. Many of the bidders are professional speculators who have no intention of improving the property. Neighborhood residents and organizations are seldom informed that a parcel is to be sold for back taxes.[1] Even after a tax sale the original owner has a right called the "equity of redemption." This is a right to redeem the property within one or two years after the sale. During this time even the purchaser at the tax sale lacks a marketable title. This often makes little difference to the holder of the tax deed; he usually is concerned with collecting the debt from the former owner, and has no intention of obtaining clear title. During this time, the property is likely to deteriorate even more. After these years of confused ownership and litigation, it is likely that any legitimate purchaser will have to bring a separate judicial action to extinguish all possible claims. This action to "quiet title" results in more delays waiting for trial time and notifying potential claimants. Even after this process has been pursued to its conclusion, there is no assurance that the property will not reappear on the delinquency list. Indeed, one New York City study revealed that 94% of the parcels auctioned off for tax delinquencies were delinquent again within four years, and 25% of the purchasers made no tax payment whatever after taking title.[2]

The Mortgage Foreclosure Process

When a lending institution makes a loan to finance a purchase of real estate, it customarily accepts a mortgage from the property owner. The mortgage is a legal document which pledges the property itself as security for the loan. In some states, title is technically held by the lending institution (the mortgagee) until the loan is discharged; in other states; the lending institution has a lien against the property which encumbers the title, preventing disposition by the owner until the lender's claim is satisfied. If the owner defaults on mortgage payments, the lending institution has the right to seize the property in partial payment of the debt. This mortgage foreclosure system operates like tax foreclosure. Owners are given lengthy periods in which they may redeem their property. The lender must forebear for perhaps two years before seizing the collateral and selling it to recover the outstanding debt. In addition, there are legal costs and procedural burdens involved which oncrease the costs pf collecting debts and of obtaining credit. Mortgage lenders are reluctant to take control of property if it will involve costly management and supervision. Even so, lenders are often unable to take possession because of rules protecting debtors.

Managing Abandoned Properties

Even if a municipality does take title to abandoned housing, there is seldom an adequate system available to maintain and manage the property. Upon becoming the landlord, the city itself is responsible for correcting the conditions that led to abandonment. This requires money. The building often partly or totally vacant, is unlikely to produce enough rent to pay for the costs of rehabilitation or to meet common expenses such as mortgage principal and interest, property taxes, insurance, and maintenance of tenant services. Private lenders are extremely reluctant to advance funds in view of the dubious future viability of most city-owned buildings. In many cases, the property deteriorates because different city agencies are unable to decide who has jurisdiction over the problem.

B. Property Recycling Program

There are a number of programs which should be employed to attack the economic, social and psychological causes of the disinvestment cycle. Lack of effective, speedy public action to deter abandonment is one of the most important immediate causes of accelerating abandonment. When a neighborhood begins to decline, both public and private action should be targeted to prevent abandonment.

The laws governing the maintenance and management of neighborhood property should be rewritten to increase the flexibility permitted municipalities, mortgage lenders, and neighborhood organizations in dealing with abandonment. The Commission's recommendations should be considered as the first step in the creation of an effective local policy to halt abandonment.

A Short-Term Policy: Expedited Foreclosures

The legal and administrative limitations of the tax foreclosure system seriously impedes public and private action to return property to productive use. An excellent experiment in expediting foreclosures from which other cities could learn is that of the St. Louis Land Revitalization Authority (LRA). The LRA, established in 1971,[3] permits the city Collector of Revenue to file consolidated actions against properties which are two years delinquent in taxes. Usually, as many as 500 properties are consolidated in a single suit. The action is brought *in rem* (against the property) rather than *in personam* (against the owner). This relieves the LRA of the obligation of personal service of process. Notice is published in city newspapers, and a registered letter is sent to the owner's last known address. This is also deemed sufficient notice to all others who may have an interest in the property. After notice appears, owners are given only a 60 day equity of redemption period, after which the Circuit Court can render a judgment.

The sheriff then offers all unredeemed parcels for sale. The LRA automatically bids the full amount of taxes due on the property; it takes title to any parcels on which there are no superior bids. The sheriff's sale gives the LRA clear and marketable title, which the agency receives as trustee for all taxing jurisdictions in the city. After it takes possession, the LRA inventories and appraises the parcels and classifies them as suitable for private use, suitable for public use, or suitable for landbanking. It is empowered to manage, maintain, rent, lease, insure, and alter the real estate it holds. It may also receive gifts of properties and purchase additional properties.

When the LRA finds a private buyer for any of its parcels, it may sell the parcel for at least two-thirds of its appraised value. About two-thirds of such sales are at a flat price of $100 each. If the building is occupied, LRA collects rents from a private management firm it has retained. Unfortunately, the LRA system is not geared to assist neighborhood organizations attempting to acquire and to rehabilitate area property. In practice, the agency seldom receives title until property is four years delinquent, during which time it is often vandalized. There is no supplementary city program to assist purchasers in building maintenance and management. However, with appropriate modifications, the LRA model can be adapted to the needs of other cities and of neighborhood organizations.

The Commission recommends that state and municipal governments streamline their tax foreclosure process to return property to new uses as soon as possible. These reforms should give special consideration to neighborhood organizations which desire to purchase and to rehabilitate housing. In the Commission's opinion, the following changes will largely meet these goals:

- The states should enact legislation permitting municipalities to create land revitalization processes (LRAs) similar to that authorized in Missouri.
- LRAs should have the power to act as agents and trustees for all jurisdictions empowered to collect taxes within the municipality.
- All property taxing jurisdictions should be allowed to bring either *in rem* actions against the property or *in personam* actions against the debtor in every case.
- Numerous foreclosure actions should be consolidated into one law suit.
- Public notice requirements should be simplified to make it possible for neighborhood organizations, as well as professional buyers, to understand and to take part in tax sales.
- Local property tax jurisdictions should be empowered to proceed against abandoned parcels immediately upon the first year's tax delinquency and should be required to do so when petitioned by a neighborhood organization.
- In the case of buildings subjected to a tax sale, the owner's equity of redemption should be shortened to as little as 30 days for abandoned buildings and to no more than 6 months for occupied buildings.
- Adjacent property owners and neighborhood organizations, in that order, should have a right of first refusal to buy parcels offered at foreclosure sales, at the auction price. In New Jersey, adjacent owners now have this right with respect to parcels with less than the minimum lot size.[4]
- Where no buyer appears at a tax sale, the city or county LRA should immediately be empowered to take full title by forfeiture.

- Counties and cities should devote considerable effort to develop procedures for the efficient administration of new foreclosure laws. Parcels must steadily be moved through the system without the accumulation of unmanageable backlogs.

- The tax foreclosure process should be administratively linked to the city agencies which deal with neighborhood housing improvement organizations. These agencies should arrange the sale of parcels to the groups, provide technical assistance in rehabilitation financing, locate qualified contractors, prompt code inspections, and provide sound management and marketing advice.

- The same principles governing expedited tax foreclosures should be applied to mortgage defaults. The Commission recommends that state law be amended to permit commercial lenders to foreclose promptly upon a default. In the case of abandoned properties, the owner's equity of redemption should not exceed 60 days. The Commission also joins the HUD Task Force on Housing Costs in recommending that Congress adopt a Uniform Federal Mortgage Foreclosure Act applicable to all federally-secured mortgages for one- to four-family homes. This Act, which could be adapted for use by the states, will substantially reduce the costs of processing foreclosures through the use of administrative, rather than judicial, proceedings. The original parties to the loan agree, at the time of the making of the mortgage, to waive the customary judicial foreclosure proceedings if there is a default. The legislation specifies the administrative procedures which the mortgagee must follow before repossessing the property. Lengthy docket delays and expensive legal proceedings are eliminated. As HUD's Task Force on Housing Costs has pointed out, GNMA and other forms of mortgage-backed securities would become more readily marketable if foreclosure were quicker and more efficient.[5] Homeowners and investors would therefore benefit by increased availability of mortgage capital.

The reformed foreclosure system should create a special preference for individual homeowners and the owners of occupied multi-family residences. These owners should be given every opportunity to avoid foreclosure after a default. However, sound public policy and economic good sense require immediate action to recycle abandoned buildings whose owners have proved that they are unable or unwilling to restore the structures to economic use.

Expedited foreclosure rules would have a number of benefits for homeowners, financial institutions and government agencies. For instance, the availability of quick foreclosure for abandoned buildings would encourage owners to maintain their property and make mortgage payments. It would also reduce the costs to lenders of taking possession of defaulted property. This would permit them to take chances on loans to people to whom they would otherwise deny credit. Quick foreclosure would give mortgagees who take possession an incentive to put the building back into productive use so that its unpaid loan would be recovered. Finally, quick foreclosure could lead to a mutually beneficial collaboration between lenders and neighborhood groups, which may wish to acquire and rehabilitate foreclosed properties.

A Long-Term Strategy: Deterring Abandonment

Expedited foreclosures are not a solution to the problem of disinvestment and abandonment. Speedier action to take properties in default of taxes and mortgages would help to reduce deterioration caused by public and private inaction. But cities and neighborhood organizations must develop an effective strategy to deter abandonment at the first signs of neighborhood deterioration. The Commission believes that this strategy should include the following elements:

1. Effective Management and Marketing of Property
While no city-operated program to stem neighborhood decline is entirely satisfactory, the Commission was impressed with three experiments that seem to hold special promise.

First, the City of Yonkers, New York, has developed an exemplary program for training owners and tenants to manage their own property. Officials use an "early warning system" to identify decline, relying on vacancy rates, tax delinquencies, and physical deterioration as indicies. The city works with building owners, tenant groups, and lenders to develop a rescue program tailored to the particular needs of each building in a target area. A computer analysis of the building's finances serves as the starting point for discussions among city officials, owners, managers, and tenants. The rescue plan may include tax abatement, refinancing, rent increases, management improvements, or increased tenant control. In many cases, the city encourages a transfer of buildings to new owners who are better situated to maintain and improve the buildings.[6]

Second, where preventive action is impossible, several cities are beginning to experiment with improved receivership. If a privately-owned building is declared to be a public nuisance or is seriously in violation of housing codes, a court may grant the city the power to manage or repair the building itself. The city may also appoint a private manager, tenant organization, or neighborhood group to manage the property. Receivership may often be the only solution to saving seriously deteriorated, but occupied, housing. However, the supporting management capacity of most cities is often so poor that municipal receivership does not bring better maintenance. The experiences of New York and Baltimore, however, illustrate how receivership can be used to improve neighborhood housing.

Lengthy legal proceedings required to establish receiverships are often fatal to buildings, many of which often deteriorate rapidly once action is begun. As an alternative to receivership, Baltimore has pioneered in establishing "quick-take" procedures under its 26H ordinance.[7] The city may acquire any dilapidated structure which constitutes a public nuisance and which is likely to contaminate the neighborhood. A 26H proceeding permits the city to take title to abandoned property in as few as 90 days. After it takes possession, Baltimore may operate the building or appoint a private receiver. A wide range of grants, loans, and subsidies are available to finance rehabilitation.

New York has had the greatest practice with receiverships. Its experience indicates that municipalities need flexibility in law in order to tailor styles of receivership to different patterns of ownership, tenant characteristics, and deterioration. The city now has a choice of five receivership management techniques: direct management; private contract management companies for a fee; local public housing authority management; citywide nonprofit organization management; and management by qualified community or tenant groups. New York's experience also points to the need for effective cooperation among city code enforcement, property management, housing development, and social service agencies.

Third, the experiences of New York, Newark, and Hartford indicate a real potential for community or tenant management as a long-term solution to deterioration of certain kinds of housing.[8] Community and tenant organizations in these cities have restored basic services, reduced flight by tenants, attracted new tenants, reduced turnover, collected rents, maintained costs, encouraged cooperation among tenants, and helped tenants to readjust their expectations about the level of services they can reasonably expect to enjoy. Community management and communal ownership are not appropriate in all situations. This is especially so in neighborhoods experiencing rapid decline and advanced deterioration. But community ownership can be a useful tool in maintaining citizen commitment to the neighborhoods before abandonment spreads.

Before receiver property can be turned over to effective neighborhood control, cities must simplify the laws so that tenants and residents can understand their requirements. They must reduce bonding requirements to permit neighborhood organizations to assume responsibility for ownership. They must give tenants and area residents a priority in purchasing the property they are administering. Finally, they must be extremely sensitive to the differences in skills and resources of low and moderate income residents in managing and maintaining rental property. Cities must supply management and maintenance services to relieve some of the burdens of ownership. This can be done by public agencies directly or by contract with neighborhood organizations or private tradesmen and professionals.

2. Private Enforcement of Housing Code Standards

In the early stages of decline, code enforcement can be an effective tool to encourage necessary repairs. The problems neighborhood organizations face in obtaining effective official housing and sanitary code enforcement are similar to those with building code enforcement, discussed elsewhere in this report.[9]

The Commission believes that the official system should be supplemented by making it easier for citizens to sue offending property owners directly. This will require several modifications of existing law:

First, the Commission recommends that state laws define the "owner" of property as the person or persons directly or indirectly receiving the benefits of ownership. In the absence of a consolidated land registration system, it is often impossible to identify anyone responsible for repairs. Such a statute has been enacted in Minnesota, making it less costly to bring a code prosecution.[10]

Second, bona fide neighborhood organizations should be given the power to bring actions for private nuisances against the owners of delinquent properties. The law usually limits these actions to adjacent property owners. The perogative of bringing public nuisance prosecutions is usually limited to government.

Third, the standard of injury required to bring a nuisance action should be expanded to include the effect of aesthetic blight and simple deterioration on the value of adjacent property. Traditional rules limit recovery to a showing of a threat to public health, safety or morals. A recent New York case may become the model for this expansion of the rules against nuisance.[11]

Fourth, where public officials fail to prosecute code violations in a timely manner, bona fide neighborhood organizations should have the right to act as private attorneys general to force the case to trial. The organization should be empowered to bring a *qui tam* action, in which it is allowed to recover half of the fine paid in return for its prosecution on behalf of the public.

Fifth, if the private owner agrees to sell or to give the property to the neighborhood organization, a court should have summary powers to transfer marketable title to the organization. In this case, the court should require the organization to demonstrate that it has the experience, financing, and desire to rehabilitate the structure for the benefit of area residents.

There are examples of neighborhood organizations which have been able to create their own strategies to deter abandonment using some of these innovative legal rules. The Southeast Chicago Commission (SECC), an organization sponsored by the University of Chicago, has effectively combated blight in the neighborhoods surrounding the University campus. Because of delays in official code enforcement, the SECC brings independent civil cases which result in court orders and recovery of legal fees for code violations. These cases are heard within 3 to 6 months of filing rather than years later. The SECC also regularly demands a detailed order requiring owners to submit specific rehabilitation plans, signed contracts with repairmen, and escrowed funds to cover estimated costs of repairs. A *lis pendens* is also filed, clouding the owner's title and making it difficult for him to sell the property. The action by SECC often results in owners being forced to deed the property to the city.

3. Homeowner's Equity Insurance:

The Commission believes that a key element of neighborhood stability and revitalization is the presence of resident owners concerned about their property and the quality of neighborhood life. Helping these people to retain their homes and small apartments when their incomes are curtailed through no fault of their own is a legitimate goal of public policy. To begin achieving this goal, the Commission recommends that Congress should require HUD to submit a comprehensive report on the potential of a homeowner's equity insurance program. This plan would insure homeowners and the owners of small apartments against foreclosure if default were caused by death, disability, or involuntary unemployment.

The object of homeowner's equity insurance is to provide enough income to enable the owner to maintain mortgage payments, taxes, and insurance. The home owner pays an insurance premium along with his or her monthly mortgage payment. An insurance fund would supplement the monthly payment, or assume it entirely, when the homeowner was unable to pay because of death, disability, or unemployment. The need for owner's equity insurance will increase if states adopt expedited foreclosure laws.

Rather than adopt a comprehensive program to provide these benefits, the Congress has so far chosen to respond with emerging legislation to distribute direct loans and loan guarantees in times of excessive foreclosures. This happened during the recession of 1974-75 when there was a wave of threatened and actual foreclosures. While some homeowners are assisted, the costs of these reactive programs is often excessive. They also extend no benefits to individual owners who fall on hard times or to neighborhoods and cities experiencing excessive foreclosures problems.

Although Congress directed HUD in 1968 to join with private insurers to develop a plan for owner's equity insurance,[12] no report has been submitted to Congress by HUD as required in the legislation. The Commission believes that this report should be completed within six months. Owner's equity insurance can be developed on the basis of federal reinsurance of private carriers. It should be financed as much as possible by premiums and extended payment provisions.

4. Private Neighborhood Redevelopment Corporations and the "Carried Interest" Law

Urban neighborhoods are characterized by a striking economic interdependence on housing units. The value and the desirability of a building is determined not only by its physical condition and location, but also by the physical condition of properties surrounding it. Before considering rehabilitation, an owner of rental housing must consider both the prospect of future demand in the local housing market and the prospect of changes in the desirability of the immediate neighborhood. If the owner concludes that other owners are unlikely to follow his example, little rehabilitation is likely to occur. The same kinds of decisions are made by lenders, insurers, and officials when they determine the risks of investing in a neighborhood.

The decision to reinvest in a neighborhood is easier if owners are convinced that others will follow suit. Ideally, every property owner should approve a general development plan; the city should agree to provide improved services; and lenders and insurers should provide capital. Unfortunately, unanimity is impossible, so alternatives must be sought to increase investor confidence in the neighborhood. The greatest problem is to assure developers that initial holdout owners will eventually accept the costs of rehabilitation. Three solutions to this problem have been found.

First, traditional urban renewal solves the problem by public acquisition of all area property. The urban renewal agency then turns the property over to others who promise to develop it according to a master plan. The effect of this program has been the massive uprooting of low and moderate income families, the destruction of countless homes and businesses, the creation of additional crowding and blight in adjacent neighborhoods, graft, and severe social problems caused by the destruction of viable neighborhood life. The Commission hopes that the traditional urban renewal process is never again used to bulldoze established neighborhoods.

Second, neighborhood redevelopment corporations can be created to assemble property using city-supervised eminent domain. This has been done in Missouri[13] and in Illinois, where a 1950 law gave the University of Chicago the power to revitalize the Hyde Park neighborhood.[14]

The Missouri law has been widely used by large-scale private commercial developers because it permits tax abatements as well as eminent domain. Only one neighborhood organization has used the law. In Illinois, the Chicago Redevelopment Commission has broad powers to authorize private neighborhood redevelopment corporations to exercise municipal powers to implement a general redevelopment plan. A corporation may not exercise these powers until the Commission approves the development plan and approves condemnation of each private parcel affected.

The Commission recommends that states examine the experience of neighborhood redevelopment corporation laws in the states where they are in effect. However, the Commission feels strongly that it is a grave error to empower outside developers to redevelop existing neighborhoods without the affirmative participation of neighborhood residents. The law should encourage neighborhood residents to form their own neighborhood redevelopment corporations to carry out improvement projects in their neighborhoods. Where possible, the Commission believes that the rehabilitation contractor should be employed under contract to the neighborhood corporations, which would serve as the general developer. This arrangement, of course, requires that the neighborhood corporation have sufficient capacity to engage in the complicated process of redevelopment.

Third, the "carried interest law" offers another opportunity to encourage participation in neighborhood redevelopment. The concept of a "carried interest" arose from problems of oil and gas exploration. If a holdout urban property owner refuses to upgrade his building, it is senseless for other property owners to rehabilitate theirs. The holdout serves as an effective veto on any new development. This is analogous to the problems surface owners have in financing oil and gas exploration. If a few owners decide to risk their money to finance an exploratory well, they assume all the risk of a dry hole. If the well locates a field, however, holdout owners can then drill their own wells without risking any initial investment.

Because of this "free rider" problem, petroleum producing states have passed laws permitting the initial investors to charge the holdout if the drilling is successful. If the drilling fails, the holdout is not liable for a pro rata share of drilling costs. In the case of an urban neighborhood, a set percentage of the property owners of commercial property, if they prepare a development plan for a large number of buildings, could exercise the same powers. Every owner would be asked to participate. The neighborhood development corporation would then improve all properties in the district, including those owned by holdouts. The development corporation receives control of the building and retains control until their investment is paid off. At that point, control reverts back to the owner. The carried interest rule should be limited in three ways:

- it should not apply to individual homeowners;
- the development corporation must assure the holdout that rehabilitation will not cost any net profits; and
- the developers must post a performance bond to assure reimbursement if a renovation is not completed.

The Commission recommends that HUD promptly commission a detailed legal study of the carried interest and compulsory unitization principles of American law. These principles should be examined to see how they apply to urban neighborhood revitalization. The Commission further recommends that HUD provide technical assistance and coordinated support for the implementation of legislation embodying these principles when enacted by a state legislature.

Equal Housing Opportunity and the Problems of Minority Americans

Racial discrimination poses special problems for minority Americans who wish to preserve their existing neighborhoods or to find decent housing in new ones. Because of a lack of affordable housing in the suburbs, low and moderate income black and Hispanic families are often forced to live in less desirable housing in old, crowded urban neighborhoods. Attempts by the federal government to distribute lower income housing throughout metropolitan areas have largely failed. At the same time, even minority citizens who live in relatively stable neighborhoods or who merely try to seek decent housing in other city neighborhoods are likely to feel the effects of discrimination. Some real estate agents may begin panic sales in an effort at "blockbusting" stable neighborhoods so that they can purchase homes at depressed prices. Other minority people are steered away from areas in which they would like to live.

The effect of racial prejudice on housing opportunity is an important issue which must be addressed in any local neighborhood improvement program. The Commission believes that the effects of racial discrimination can be minimized by the concerted action of federal, state, and local officials and by neighborhood organizations themselves. The Commission's recommendations are intended to attack the two key limits upon equal housing opportunity; exclusionary zoning in the suburbs and exploitive real estate practices in urban neighborhoods.

A. Exclusionary Zoning

Numerous studies and several earlier national commissions have documented and sharply criticized the use of zoning by suburban communities to exclude the poor, blacks, and Hispanics. Most suburban communities welcome planned industrial and commercial development because it contributes to the local tax base. They do not, however, welcome housing for the lower-income people who may be employed by such developments. These people are viewed as tax-eaters and potential causes of social problems. Suburban exclusionary zoning is usually enacted in the name of public health, safety, and welfare. It takes the form of large lot requirements, high minimum floor areas, severe limitation of multifamily dwellings through density limits, the requirement of a large number of expensive amenities to be provided by the builder, and the prohibition of mobile home parks. These techniques inflate the cost of the housing beyond the reach of low and moderate income people. The ordinances may or may not be racially motivated, but their effect is to exclude certain classes of people from the suburbs.

The Commission is strongly opposed to the use of zoning to erect barriers to free housing choice by the poor and minorities. Government should afford maximum opportunities for poor and minority people, not erect additional barriers to their progress. The question for public officials and for citizens is how to attack these artificial barriers. Four Strategies may be used.

Litigation

The Commission would welcome a United States Supreme Court decision holding zoning and related ordinances which had the effect of excluding the poor and minorities from a community invalid on constitutional grounds. Only ordinances which are truly necessary to meet minimum requirements of public health and safety should be permitted. The Commission believes that few, if any, suburban zoning policies could meet that standard. Unfortunately, the courts appear unlikely to overturn zoning in this way. In its most recent pronouncement on the subject, the Supreme Court held that the refusal of a suburban municipality to change its zoning laws to permit low-income housing is not unconstitutional, even though the effect of the zoning is to exclude racial minorities from the community.[15] The Court is even less likely to rule that mere economic discrimination is sufficient grounds to overturn local zoning ordinances. Litigation would not appear to be a productive strategy to attack exclusionary zoning.[16]

Legislation

The State of Massachusetts has pioneered in legislative remedies through its "anti-snob zoning act.[17] It establishes a maximum number of low and moderate income housing units which each community in the state must accept. A municipality may reject a proposal for low and moderate income housing if it is not consistent with local needs or based on valid planning considerations such as desirable site planning and open space requirements. An application can also be rejected if it would produce too much low income housing too quickly or too much in proportion to other classes of uses.The Act also permits builders to appeal refusals by local authorities to a state agency, which has the power to overrule local action. In seven years, 6,000 units have been placed in this way. The Commission commends the Commonwealth of Massachusetts for taking this step to deal with a very difficult, very emotional problem.

Administrative Review of Local Action

Two administrative procedures offer a chance for increased monitoring and review of local exclusionary practices.

A-95 Reviews were created in 1969 to improve areawide coordination of federally-assisted programs and projects. Originally designed to implement the National Environmental Policy Act of 1969, the Intergovernmental Cooperation Act of 1968, and the Demonstration Cities and Metropolitan Development Act of 1966, the A-95 program was amended in 1972 to include monitoring the objectives of Title VI of the Civil Rights Act of 1964 and to consider the impact of projects on balanced patterns of settlement and the delivery of services to all sectors of the population, including minority groups.

A-95 operates through regional clearing houses, which may be regional planning commissions or councils of government. These clearing houses have advisory review jurisdiction over a vast range of federally-assisted projects, but no veto power. The Commission recommends that the U.S. Office of Management and Budget direct its A-95 clearing house organizations to consider the impact of proposed projects on opportunities for lower income people and minority groups. Where an adverse impact is found, the federal agency funding the project should be required to publish its reasons for approving the grant despite its negative impact on poor and minority people. The Commission does not wish to increase paperwork or to give regional A-95 clearing houses a veto over federally-funded projects. But the Commission does believe that publicizing the negative social and economic consequences of federal and local programs will increase the accountability of local state and federal officials to the problems of lower income and minority people. Increased accountability will also encourage a restructuring of programs and projects which have an especially negative effect.

B. Exploitive Real Estate Practices

Blockbusting tactics are possible because housing demand is high in crowded, inner-city neighborhoods. This pressure, coupled with unreasonable fears and racial prejudice, gives exploitive real estate agents an incentive to create panic sales. They can then purchase the property at lower than market prices, perhaps subdive it and offer it to new (usually minority) occupants. Neighborhood groups, particularly in all white neighborhoods where orderly integration has not been given a chance to work, may mobilize to fight back. The issue becomes so overwhelming that reason yields to passion and prejudice.

The Commission strongly condemns the practices of blockbusting, steering, and all forms of racial discrimination in the housing market. These practices should be combatted in the following ways:

Civil Rights Enforcement

The Commission reaffirms its unqualified support of Title VIII of the Civil Rights Act of 1968, which forbids racial discrimination in the sale, rental, financing, or brokering of real estate. It recommends additional funding and staffing for HUD's Office of Fair Housing and Equal Opportunity. Programs to encourage voluntary compliance with the Act should be strengthened and compliance should be effectively monitored. Where appropriate, violators should be swiftly and effectively prosecuted.

Private Civil Rights Prosecutions

The Commission recommends that HUD provide strong support and legal assistance to private parties who bring civil enforcement actions under Section 808 of the Civil Rights Act. The law should be broadened to permit neighborhood organizations to act as plaintiffs. The present statutory limit of $1,000 punitive damages should be raised to $5,000 because actual damages are often difficult to prove.

Voluntary Neighborhood Integration

The Commission recognizes that there are a large number of neighborhood groups across the country which are committed to the orderly racial integration of their neighborhoods. The Commission recommends that HUD enter into agreements with these with these organizations so that they will have the resources to implement fair housing rules. Organized, credible neighborhood promotion of open housing is likely to be far more effective than the efforts of remote and cumbersome federal bureaucracy.

Local Laws and Neighborhood Self-Defense

There are a number of steps neighborhoods and cities can take to prevent racial steering and blockbusting and to maintain stable integrated neighborhoods without federal intervention. Two examples have impressed the Commission:

1. Baltimore's Northeast Real Estate Conservation Project (NEREC). The goal of NEREC is to maintain property values and support the neighborhood housing market through a positive marketing program aimed at real estate professionals and potential buyers. Thirteen neighborhoods cooperate in the project, representing a population of approximately 60,000, almost equally divided between black and white. NEREC's board represents both area residents and real estate professionals. It is supported primarily by Community Development Block Grant funds. The project has two major functions: first, it has invoked a Maryland law establishing "real estate conservation areas".[18] This law permits residents to petition the state Real Estate Commission for designation. Once it is granted, the Real Estate Commission may ban the posting of "for sale" signs by professional brokers. This makes the area less vulnerable to blockbusting. Second, NEREC has developed an affirmative marketing and promotional strategy to maintain the image of the neighborhoods as good places to live. A cooperative program with real estate professionals has resulted in non-discriminatory sales practices. This has tended to reduce fears, maintain a racial balance and support housing values.

2. Oak Park, Illinois Owner's Equity Insurance Program. Oak Park, a western suburb of the City of Chicago, is becoming a principal outlet for minority people seeking suburban housing. It is surrounded by municipalities notorious for their exclusionary practices. Oak Park is therefore vulnerable to blockbusting panic. To counter this threat, the Village Council in 1977 adopted an ordinance establishing a Homeowner's Equity Insurance Plan. Initially limited to single-family residences only, homeowners enroll in the plan by paying a one-time $90 fee to cover appraisal and administrative costs. If, five years after appraisal, the property is sold for less than appraised value, the Village will reimburse the seller for 80 percent of the shortfall. The program is supported by an annual $300,000 tax levy, which is used to create a reserve fund. The Village has also taken an aggressive stance in policing and prosecuting unscrupulous real estate salesmen. Several lawsuits have been brought for violation of Title VIII bans on racial steering, resulting in license revocations.

The Commission commends the Northeast neighborhoods of Baltimore and the Village of Oak Park for intelligent leadership in dealing with blockbusting and racial steering. The Commission recommends that HUD make a special effort to compile and make readily available the details of these and similar programs to other municipalities and neighborhood organizations throughout the country. This should be part of the Agency's technical assistance program.

Federal Income Taxation and Neighborhood Development

The Federal Internal Revenue Code is one of the most complicated documents ever written. The effects of the Code on millions of taxpayers' behavior may be ones wholly unanticipated by those who wrote the law. The National League of Cities has criticized the effect of the Code on urban development, charging:

> Federal tax policies, which through real estate tax shelters discourage the construction of long lived properties, discourage the maintenance of inner city residential property, promote land speculation leading to excessive suburban development, and produce tax biases against renters. . . have combined (with other policies) in the past decades to produce undersirable patterns of urban development.[19]

Regardless of the increasing frequency of such criticism, little has been done in recent years to amend the Code to encourage the preservation and rehabilitation of urban neighborhoods. President Ford's 1976 Task Force on Neighborhoods, of which the Secretary of the Treasury was a member, called only for continuing study and review of tax policies. President Carter's 1978 National Urban Policy, though containing two economic development tax proposals, was also silent about tax changes to benefit neighborhood residential revitalization. The National Commission on Neighborhoods has been asked to correct this serious oversight. The following section of the Report describes as simply as possible, the relationship between the Internal Revenue Code and neighborhood housing and recommend specific changes designed to benefit neighborhood revitalization.

Tax Subsidies of Home Ownership

The Code provides four important tax benefits for homeowners: first, it allows homeowners to deduct all property taxes paid to local governments from their gross income; second, it allows the deduction of all mortgage interest paid; and third, when a person realizes a capital gain upon the sale of a home, he or she is not liable for capital gains tax if the proceeds are reinvested in another principal residence with one year.[20] The Office of Management and Budget has estimated that these three provisions cost the government $11.76 billion in revenue each year.

There is no limit to the amount of mortgage interest or property taxes paid which may be deducted. The provisions apply as much to the owners of palatial estates as to the owners of modest homes. Indeed, since the owners of estates usually have a great deal of income, the deductions often mean far more gain to them than to the middle class homeowner. The affluent are able to use a greater proportion of their deductions than people with modest incomes.

Fourth, homeowners also receive another significant tax bonus in comparison to the owners of commercial rental property: Unlike those who own rental housing, the individual homeowner may exclude the rental value of his home from his gross income. The owner of rental property must first include this value in his income before he takes any deductions. The annual value of this right of exclusion is a pure subsidy of home ownership.

Tax Policy and Rental Housing:

Tax Shelters

The key to understanding the relationship between tax policy and the rental housing market is the concept of a real estate "tax shelter". With income taxes claiming 50 percent of their earnings on up to 70 percent of their investment income, high income persons are understandably eager to find ways to reduce their taxes. For many, the answer has been the real estate tax shelter. As the Congressional Budget Office has noted:[22]

> Real estate tax shelters have two main goals: to defer the payment of taxes for as long as possible; and to "convert" ordinary income—which is taxed at rates as high as 70 percent—into capital gain income which is taxed at substantially lower rates. Deferral or postponement of tax payments can be quite valuable, because it in effect provides the taxpayer with an interest free loan from the government. If payment can be deferred nine years, and if the taxpayer can invest his money at 8 percent, deferral will permit the taxpayer to double his money over that period."

The principal device for deferring payment of taxes on rental housing investment is the depreciation deduction. Because physical property tends to wear out (or "depreciate") over time, the Code allows owners to deduct a certain amount of the lost value each year from their income tax. In theory, the owner is expected to set aside this amount to provide for the ultimate replacement of the asset at the end of its useful life. In practice, however, depreciation is a "paper loss" and no actual cash reserve is ever established.

Four aspects of real estate depreciation are particularly important to investors.

First, because of depreciation and after deductions, a real estate investment may show a net paper loss. This can be used to offset—or "shelter'—income from other sources. This feature accounts for the popularity of tax shelters among high income taxpayers.

Second, a taxpayer may deduct the total amount of a building's original cost even though 90 percent or more of that cost is borrowed money, and the investor is not personally "at risk" for the amount of the loan. This is called "non-recourse financing"—in the case of default, the lender may take possession of the building itself, but has no recourse againt the assets of the original investors. Thus, an investor can put up $100,000 cash of his own as equity, obtain a mortgage of $900,000, and take depreciation deductions totalling $1,000,000. Following the Revenue Act of 1978, real estate is about the only investment still available where the depreciation is not limited to the amount the investor has "at risk."[23]

Third, a taxpayer may also benefit from tax provisions permitting "accelerated" depreciation. Prior to 1954, all real estate depreciation was computed on a "straight line" basis: if a building had a remaining useful life of 40 years, 1/40 of its cost could be taken as depreciation for each of those years. Since 1954, the Code has permitted investors to accelerate depreciation deductions, using any of several computational techniques. Under all of these techniques, the total amount of depreciation claimed over the life of the building will be the same as under the straight line technique, but the deductions in the early years will be considerably greater than under the straight line technique and considerably less in later years.

One of the most popular accelerated depreciation techniques in recent years has been the "200 percent declining balance". For a million dollar building with a 40 year life, the deduction for the first year under this method would be double the straight line deduction or 1/20 of its cost. For each successive year, that same fraction of total cost is applied to the declining balance (cost less accrued depreciation). This accounting technique permits the taxpayer to shelter an even greater amount of his income from other sources during the early years of his investment.

Fourth, when the advantage of the accelerated depreciation begins to fall off, the investor begins to think about selling the asset and taking advantage of another principal tax benefit—the capital gains rate.

The "adjusted basis" of property generally is its initial cost less the amount of depreciation deducted by its owner. If the property is sold for an amount greater than its adjusted basis, the owner realizes a special kind of income called a "capital gain". This gain is not taxed at the same rate as ordinary income. If the property was held for more than one year, the law prior to 1979 allowed taxpayers to exclude one half of their net long term capital gains from taxation entirely. The remaining half was added to and taxed along with ordinary income. The Revenue Act of 1978 liberalized the law to permit exclusion of 60 percent of the long term capital gain from taxation. This special tax rate is an incentive to purchase and to sell investment property.

Until 1969, a common practice in real estate investment was to form a partnership, or syndicate, to invest in rental property. A relatively small amount of investor's equity was used to attract a large mortgage loan. The investors claimed as much accelerated depreciation as quickly as possible, an amount equal to the total of equity and mortgage loans. After eight or nine years, when available depreciation had diminished considerably, the partnership would sell the building, paying the lower capital gains tax rate on any profit realized. Tax rules were drafted to permit the Treasury to "recapture" some of the "excess" depreciation deductions permitted in past years. The owners would have to repay the total amount taken in excess of straight line depreciation if they sold the building within 20 months of purchase. However, after 20 months, the Treasury's power to "recapture" was gradually phased out; after 10 years, the investors did not have to repay any of the excess accelerated depreciation. This pattern has had a negative impact on housing quality in part because the Uniform Partnership Act—in force in 49 states—prohibits limited partners from engaging in housing management.

Beginning with the Tax Reform Act of 1969, numerous changes were made in the Code to limit tax shelters. That act, and the Tax Reform Act of 1976, have drastically revised the ground rules for tax motivated investment in real estate.

First, while 200 percent declining balance depreciation is still in effect, rules regulating the recapture of excess depreciation have been considerably strengthened. For low income residential rental property (both new and substantially rehabilitated) acquired after 1976, the full excess depreciation benefits are recaptured if the property is sold within 100 months. For each month it is held thereafter until sale, the amount subject to recapture is reduced by one percentage point, until after 200 months there is no longer a recapture. The recapture is effected by treating any gain on sale as ordinary income up to the amount of excess depreciation which can be recaptured; any remaining gain is taxed at the lower capital gains rate.

Second, a minimum tax of 15 percent is now applied to all "tax preference income". Among the items of "tax preference" are the untaxed portion of net capital gains realized and all accelerated depreciation in excess of the straight line rate.

Third, the 1976 Act has severely limited the benefits of deducting construction period interest and taxes as curent expenses. Starting in 1978, for conventional residential construction, these expenses are required to be amortized over four years, instead of one; by 1984, the law will require ten year amortization.

A fourth complication for prospective investors seeking a shelter arises from a recent reinterpretation of a landmark revenue case. In some instances as owners of rental real estate may find that they have an outstanding mortgage greater than their tax bases (costs less accrued depreciations). This can happen in one of two ways: the taxpayer may have used the appreciation in value of the real estate as security for a new (or increased) mortgage, to produce tax free cash; or he or she may have taken depreciation deductions that exceed investment.

Since 1947, it has been settled that a taxpayer who sells mortgaged realty must include the amount of the mortgage as part of the income from the sale.[24] According to this rule, selling for some cash and assigning the outstanding mortgage to the buyer is the equivalent of selling for the total amount of cash plus mortgage, then paying off the mortgage. A sale of this kind can produce a capital gains tax liability in excess of the amount of cash obtained in the sale. This obviously discourages a sale.

It was long thought that a way to avoid this rule was an outright gift to a charity, which would assume the mortgage; such a transfer would permit the owner to take a deduction for a charitable donation equal to the market value of the property, not its basis as an investment. A landmark 1970 Revenue Ruling blocked this dodge by declaring that such a transaction is part gift and part sale.[25] The ruling stated that the amount of the mortgage assumed by the transferee is held to be proceeds of a sale; the amount of taxpayer's equity alone is held to be a gift. The former is taxed at the capital gains rate, while the latter is deductible as a charitable contribution. These rules often make it impossible for a taxpayer to dispose of a building with a mortgage in excess of basis without paying out of pocket for the privilege.

As a result of these changes, a sophisticated investor seeking an immediate tax shelter must give very careful attention to the "back end" problem—how to get out of the deal at a later date. In the view of many tax experts, this recent effort to create back-end penalties (recapture, minimum tax, maximum tax) to deter tax shelter has made traditional residential real estate investments unattractive and unsalable to many high bracket investors. The days of quick turnover for a lightly taxed profit are clearly gone. There is now more emphasis on the physical soundness and long term income potential of property than on the tax benefits to be realized from shelters.

In recognition of this change in emphasis, two new policies in the Code designed to stimulate urban rehabilitation should be mentioned.

Residential Rehabilitation

In recent years, two amendments to the tax code have been enacted to stimulate urban revitalization projects. They have had mixed success in encouraging the rehabilitation of housing for low and moderate income people. Section 167 (k) enacted in 1969, allows taxpayers to amortize rehabilitation expenditures (not including the cost of acquisition) over five years, regardless of the expected economic life of the building. The resulting units must be occupied by tenants who qualify as low income under Section 8 of the Housing Act of 1937. The benefits of such amortization are considered to be tax preference items and are subject to recapture on sale. The Revenue Act of 1978 extended this provision through 1981. It appears to have had a measurable impact on increasing housing opportunities for lower income people.

Section 191 allows a five year writeoff of expenditures for rehabilitating certified historic structures. (a similar provision, Section 167(o), permits the owners of historic structures to use accelerated depreciation methods otherwise unavailable for old buildings. These provisions, coupled with the availability of various federal and state grants, have made investment in historic rehabilitation very attractive in the three years they have been in effect. They have also created incentives for historic district restoration, which was their intent. That effect, however, has often come at the expense of low and moderate income residents of those newly discovered historic neighborhoods, many of whom have been displaced by more affluent homeowners.

Recommendations

It is the Commission's conclusion that the current emphasis in the Code on deterring financial speculation in housing resources should be continued. A tax structure that facilitates the purchase of property merely to obtain a tax shelter from taxes rather than for people is not desirable. The goal of tax policy should, in the long run, be to encourage neighborhood based ownership and management of neighborhood housing, through individual, cooperative, and condominium ownership and through resident landlords and investors. On the other hand, in the short term, the existing pattern of high bracket, shelter seeking absentee investors is a critically important source of capital for housing construction and rehabilitation. An attempt at one stroke to replace absentee investors with neighborhood based ownership and management would run the risk of choking off investment without stimulating adequate replacement capital from new sources.

The Commission suggests, instead, that the Code be gradually changed to deter non resident investment, and that tax shelter seeking behavior be channeled into desirable neighborhood rehabilitation projects. This will require both a long and short term tax reform strategy. The Commission's recommendations, which follow, form the foundation for such a strategy.

Tax Policy and Rental Housing

Tax Shelters: A Short Term Policy

1. Accelerated Depreciation for Housing Rehabilitation

The Commission believes that adequate incentive should be maintained for the next few years to attract the existing investors who are seeking tax shelters. At the same time, the first steps should now be taken to lay the groundwork for a different system which will create incentives for individual home ownership rather than absentee investment in housing. In his message to Congress on tax reform in January of 1978, President Carter called for an immediate return to straight line depreciation deductions for all commercial properties except new housing. Owners of new, multi-family housing would be permitted to use a 150 percent declining balance method, and owners of new low income housing would continue to use the 200 percent declining balance system until all accelerated deductions would end in 1983. The Commission believes that President Carter's recommendations point in the right direction. However, to encourage rehabilitation the Commission recommends that only owners who substantially rehabilitate existing housing be allowed to use the 200 percent declining balance method. All new multi-family and low income housing should be limited to the 150 percent declining balance method. The 200 percent acceleration should be available both to government assisted and privately financed housing rehabilitation projects.

2. A Tax Deductible Building Maintenance Reserve Fund for Major Repairs

Because of the sharply increased "back end" penalties discussed above, liberalized depreciation techniques are unlikely to continue to be attractive to investors. These penalties, designed to deter fast turnover shelters, now have the effect of increasing investor interest in managing and maintaining an income producing building over a 15 to 20 year period. Today, problems of building maintenance and repair are receiving far greater attention from owners than they did in the 1960s. Before the introduction of back-end penalties, investors would simply drain off rents in the prospect of dumping the property in seven or eight years. In many cases, little of this income would be reinvested in repairs. When owners know they are going to hold property for 15 to 20 years, however, they are much more likely to take a real interest in maintaining the profitability of their investments.

Because of these changed conditions, the traditional wisdom that the tax code encourages rapid turnover and a milking of cash flow instead of sound maintenance is largely obsolete. Owners must now devote enough rental income to maintenance to prevent deterioration and foreclosure.

The problem now is that the Code does not create incentives for owners to make *major* investments in repairs. To create such an incentive for extra maintenance, the Commission recommends that owners be allowed to set aside a tax deductible maintenance reserve equal to 5 to 10 percent of gross rents. This reserve would be kept in the form of a blocked account at a financial institution. Withdrawals from this account could be made from time to time for the sole purpose of building maintenance, renovation, and rehabilitation without further tax consequences. This proposal is analogous to existing provisions of the Code allowing financial institutions to set aside a bad debt reserve (Sections 585 and 593) and allowing individuals to create individual retirement accounts (Section 408).

Tax Shelters: A Long Term Strategy

Over the long term, the Commission recommends that the tax provisions governing real estate investment be modified to encourage a transition from absentee, investor ownership to neighborhood based ownership and management. Neighborhood based ownership and management is naturally far more responsive to the wishes of residents for the creation and preservation of a decent living environment in cities. One problem is that all too frequently, there is no neighborhood based housing corporation with sufficient management capacity, access to financial resources, and commitment to assume major construction and management responsibilities. Elsewhere in this report, the Commission recommends numerous policy changes to encourage the development of these kinds of neighborhood based institutions. However, the Commission also believes that capable, new neighborhood based institutions will make a far greater contribution to improving neighborhood housing if they form a partnership with outside investment capital and private entrepreneurs. The Tax Code should be restructured to enlist this pool of wealth and experience in support of neighborhood goals. The premise on which the following proposal is based is that absentee investors, seeking tax shelter, will continue to initiate much neighborhood housing for the foreseeable future. The Tax Code should therefore incorporate provisions to encourage them to transfer this housing to neighborhood housing corporations qualified to assume the responsibilities of ownership and management. The numbers used in the following proposals are of course illustrative; considerable refinement will be needed before firm legislative proposals can be drafted. The Commission calls upon the Department of Treasury to begin now to analyze the following recommendations, and to present to Congress a sound proposal for revising the Code which is consistent with them.

1. Reduced Back-End Penalties

In the case where a building is constructed by a tax-shelter seeking partnership, and where that building is depreciated by an accelerated method exposing the owners to significant back-end problems on conveyance, the Commission recommends that after a ten-year holding period, when the building is sold to a qualified neighborhood improvement corporation, recapture of excess depreciation, and the impact of such recapture of excess depreciation be deferred for a period of five years, and the deduction for donations of the property to a charitable, nonprofit organization be phased in over a like period. So long as the building is satisfactorily maintained throughout that five year period, the original owners would each year be forgiven 20% of the recapture otherwise due, and 20% of the charitable deductions. At the end of the five year period of satisfactory maintenance, the original owners would be completely free of all recapture exposure, and would have taken full advantage of the charitable deduction. If after two years, for example, the building deteriorated to substandard conditions, only 40% of the recapture would be forgiven and only 40% of the charitable deduction would be allowed. Any remaining recapture penalty would be assessed that year.

In this case, if the mortgage at the time of conveyance to the neighborhood organization was in excess of the adjusted basis, present rules would continue to apply. The amount of the outstanding mortgage assumed by the neighborhood corporation would be treated as part of the sale proceeds, and to the extent the total sale proceeds exceeded adjusted basis the difference would be treated as taxable capital gain. The untaxed 40% would be included as tax preference income under §57.

The determination of the quality of maintenance would be made by HUD, or by fee inspectors licensed by HUD for that purpose, along the lines of HUD's present "superior management performance bonus" system for assisted housing (§221 (d)(3), 221(d)(4), §236, and §8).[26] Under this system, housing managers can earn an additional one percent of rents as a management bonus for maintaining high standards. Some 1,340 projects, comprising on the order of 152,000 units, are currently earning this bonus fee—about 20% of the eligible assisted units.

The determination is made by sending a HUD field staff employee to make an annual inspection lasting one or two days, depending on the size of the project. The inspection includes a physical inspection, plus examination of financial records, income recertification efficiency, occupancy levels, tenant relations, and social service availability.

2. *A Capital Gains Exclusion*

In the case of a building where the original investors used only straight line depreciation over the building's actual economic lifetime, the government would not recapture "excess depreciation" upon a conveyance. Donating the structure to a neighborhood corporation, the investor would receive a charitable deduction. However, the owner would not receive a benefit comparable to the foregiveness of back end penalties awarded to investors who used accelerated depreciation. He or she therefore has less incentive to participate in this program, which will cause increasing problems for neighborhood organizations as the accelerated depreciation rules are phased out. In order to create an incentive to participate, the Commission recommends that investors who own housing in which the mortgage exceeds adjusted basis also be permitted to exclude their capital gain from their incomes. The gain realized and the charitable deduction permitted upon a transfer to the neighforhood organization should be defined for a period of five years after the sale. During this period, the same conditions for management and maintenance applicable to owners who used accelerated depreciation would be applied. For each year in which the property was maintained according to HUD guidelines, 20 percent of the gain would be excluded from income and 20 percent of the charitable deduction allowed.

The availability of these provisions should encourage owners to undertake substantial maintenance and rehabilitation before they donate the building to the neighborhood organization. Renovation financed under HUD's Section 223 (f) program would almost certainly increase the outstanding mortgage balance above the adjusted basis, even if the owner had used straight line depreciation. This provision would encourage the original owners to use Section 223(f) by relieving them of the "back-end" penalties caused by conveyance of a building.

The Tax Status of Neighborhood Corporations

A recurring problem for neighborhood improvement corporations throughout the country is that of securing the appropriate tax exempt status under Section 501(c) of the Internal Revenue Code. Since 1943, the Code has provided for tax exemption of charitable organizations, especially those formed "for the relief of the poor". This exemption was justified by the arguments that charities served an important social purpose, were nonprofit and did not easily fit tax theories on "income" or "ability to pay".[27] There are many other classifications of exempt organizations, all of which are defined in highly technical terms. The problems for neighborhood organizations has been that of finding an appropriate pigeonhole in the tax laws which would give the benefits of tax exemption but permit greater freedom to pursue the interests of members.

The Commission recommends that the Internal Revenue Code be amended to create a new Section 501(c) paragraph for "neighborhood improvement corporation". These corporations should be a hybrid of traditional charitable and mutual benefit organizations. They should be permitted to engage in a broad range of revenue-generating activities relating directly to improvement of their neighborhood, the physical improvement of the housing stock, and economic opportunities and well being of residents.

Designation is of great importance where the benefits of public programs or tax code provisions are intended to be targeted to neighborhood improvement corporations. The qualification of a local group under this new section would be presumptive evidence that the group is entitled to participate in such program.

Neighborhood imprevement corporations should also be permitted to lobby for legislation directly related to neighborhood interests, but should not be permitted to participate in campaigns for the election of public officials. They should be allowed to engage in business activities as specifically enumerated, but any business profits would be subject to normal business taxation to protect competing businesses from unfair, tax exempt competition.

Both individuals and businesses should be allowed to deduct contributions to a neighborhood improvement corporation. The new classification should, naturally not be subject to the case law and revenue rulings issued previously with respect to other §501(c) paragraphs.

Neighborhood Revitalization Trusts

In 1969, Congress added provisions (Sections 856–8) to the Code creating tax preferences for real estate investment trusts (REITs). These provisions were intended to create a vehicle which small investors could use to pool capital to invest in a diversified real estate portfolio. The REIT is a passive investment device. It may be a corporation or an unincorporated trust or association. It is controlled by directors or trustees elected by the beneficiaries (investors). Investment is in the form of the purchase of shares or certificates of beneficial interest. At least 100 persons must hold shares or certificates, and such ownership must be sufficiently broad that five or fewer investors do not hold more than 50 percent of the shares or certificates. REITs are empowered to invest in real estate equities and mortgages, including those owned by other REITs, and as limited partners in real estate partnerships. They may invest surplus cash in government securities. There are very strict and detailed rules about the distribution of investments. Violation of such rules results in termination of REIT status.

The principal tax benefit of REITs is their ability to pass earnings along to individual investors without assessment of a corporate income tax.To retain this privilege from 1980 on, a REIT must pay 95 percent of its ordinary income to shareholders. These payments to investors are taxable as ordinary income. Any income not distributed to investors is taxed at corporate rates to the REIT. There are also special favorable provisions governing the payment of capital gains to investors, but the untaxed portion of these gains received by investors is included as an item of tax preference. The REIT, unlike a real estate investment partnership, may not pass tax shelter deductions through its investors.

In the first years of its existence in the Code, there was a considerable rush to create REITs. Many REITs invested unwisely in real estate booms resulting in over-building and ultimately widespread foreclosures. Many small investors lost savings to smooth-talking salesmen who glorified REIT investment. Many large banks created their own REITs in an attempt to generate quick earnings, thereby increasing the price and collateral value of bank stock. The inevitable crash, with large losses both to banks and to small investors, left a dark cloud over the REIT idea. The mechanism, however, is sound. The problems arose not from defects of policy, but from the foolishness and greed of actors in the marketplace. The Commission recommends that a modified REIT concept be created as a vehicle to mobilize neighborhood capital for rehabilitation and preservation. This Neighborhood Revitalization Trust (NRT) would have as its purpose the pooling of neighborhood capital to finance housing or commercial improvement in or near the neighborhood.

The basic structure of the REIT should be retained with these special modifications. Investment should be limited to persons residing in, owning property or a business in, or otherwise directly connected with the target neighborhood. Corporations and foundations as well as individuals, would be allowed to invest. Taxpaying investors should be allowed to claim a tax credit of about 10 percent of their investment. Consideration should be given to a sliding scale for the tax credit depending on the socio-economic status of the target neighborhood. The NRT could make real estate investments only in or near the neighborhood. The NRT would be allowed to invest in deals including an equity or income kicker, a practice prohibited to most REITs. Consideration should be given to HUD insurance of the first $5,000 of REIT investment, along the lines of federal deposit insurance for financial institutions. The HUD insurance would cover perhaps 80 percent of each investment, or 100 percent of the investment after a 20 percent loss deductible. The premium for such insurance should vary depending on the amount of federal insurance or guarantees covering the real estate portfolio. The city government might also be asked to share in the coinsurance, thus giving it a state in the successes of the endeavor.

In practice, the NRT might form a partnership with a rehabilitation contractor (which could be Neighborhood Housing Services or a similar neighborhood based entity) to undertake the rehabilitation of an apartment building. The NRT would provide front end financing for the venture, making it unnecessary for the developer to seek a syndication. For a project requiring $1,000,000, the developer might produce $25,000 equity; the NRT $75,000, and an institutional lender a $900,000 mortgage loan. The NRT might have secured its funds from 150 neighborhood residents who invested an average of $500 each. These neighborhood investors would claim a 10 percent tax credit on their investment, or $50 each. When the building became occupied and began to produce cash flow, 95 percent of the net proceeds would be paid out to the investors as a group. Upon subsequent sale, the investors would share in the capital gains realized.

Unlike the REIT, the NRT would have as investors residents of the neighborhood where the investment was made. Each investor would be in close contact with the project. Each investor would have a strong incentive to commit his or her efforts to continued neighborhood improvement, including the protection of the NRT investment. The NRT would lack the diversified investments which were supposed to be a virtue of the traditional REIT, but the personal inivolvement by the NRT's investors would probably compensate for this.

It may be said that in poor neighborhoods few can be found with the savings to invest in such a venture. But the Commission believes that even in poor neighborhoods, substantial capital can be mobilized if it will directly benefit the quality of neighborhood life, and where the risk of loss is comparable to that in an insured savings institution. The Commission is convinced that the future health of America's urban neighborhoods cannot be assured unless neighborhood people actively decide to invest their own resources—their time, talents, energies, and savings. The NRT can become an important vehicle for carrying out a revitalization program in many of the nations's urban neighborhoods.

The Neighborhood Assistance Act

One tax provision put into effect at the state level which has impressed the Commission with its potential for neighborhood revitalization is the Pennsylvania Neighborhood Assistance Act.[28]

This represents the first attempt to use corporate tax credits in support of programs to improve impoverished neighborhoods, to provide job training, education, community services, and to prevent crime and delinquency. The law, as amended, now provides a 50 percent credit against various state corporate income taxes to a maximum credit of $250,000 per corporation per year. A new special program, which requires the corporation to have a direct operating involvement as well as to provide funds or materials, authorizes a credit of 70 percent. In 1977, over 1100 Pennsylvania corporations took advantage of the basic credit. Out of some 200 applications, only five have been approved for the special 70 percent credit.

An early success story was the effort of the Tasty Baking Company of Philadelphia to stimulate the improvement of the predominantly black Allegheny West area surrounding the company's plant. The company paid the salary of a young lawyer who organized a building rehabilitation program. The company also paid for much of the materials used in the rehabilitation work and provided many kinds of backup support. Many of the company's employees lived in the neighborhood and benefited from the effort. The neighborhood later became an NHS program area.

The Commission strongly supports the participation of business corporations in what President Carter has called a partnership for urban revitalization. The Pennsylvania Act has had a powerful effect in encouraging this partnership. The Commission therefore recommends that other states act promptly to enact similar legislation, and that the federal government offer a corporate income tax credit to partially match neighborhood assistance credits authorized by state law.

Tax Subsidies for Residential Rehabilitation

1. Low Income Projects

Although there have been complaints that the procedures involved in Section 167 (k) of the tax code have been burdensome to investors, it is clear to the Commission that this provision of the Code has generated considerable rehabilitation activity for the benefit of low income tenants. The Commission recommends that the §167(k) program be continued after 1981, unless significant changes are made elsewhere in the Code to attain the same objective.

2. Historic Preservation

While the Commission would not end the movement of affluent people back into the cities, it does not believe that the Federal Tax Code should give special benefits to those who eject the poor from their neighborhoods under the banner of historic preservation. The Commission therefore recommends that §191 of the Code be allowed to expire in 1981. Removal of this special tax benefit for restoration by the affluent would not put an end to displacement but it would at least put an end to an important incentive to that displacement presently in the Tax Code.

Property Taxation

For most of the nation's history, local governments—even those which federated in colonial times to form the original states—have been considered mere creatures of state law. Their powers are largely determined by state and federal laws; and until quite recently, local governments were delegated few powers by their parent states. At the same time, municipalities have depended largely on real property taxation as the major source of revenue. The limited powers to raise revenue delegated by the states were not a major problem until additional responsibilities were imposed on city governments to maintain minimum standards of health and welfare and to provide services formerly administered by private enterprise such as transportation. Demands for greater local autonomy to raise revenue to pay for these new municipal services were answered in the 1940s, beginning in Pennsylvania. That state had some of the most severe restrictions on local taxation in the nation; but in 1947, Pennsylvania enacted the so-called "tax anything" statute, giving local government virtually unlimited power to enact tax ordinances.[29] Within two years, according to one observer, "There developed the most amazing array of new taxes and tax forms that had ever been seen or heard."[30]

Since 1947, similar laws have been enacted in most states, increasing both the power and the incentive for local governments to invent and to raise taxes. By 1973, the 48 largest cities in the United States reported that 58 percent of their revenue came from entirely local sources. Of this, 43 percent came from property taxes.[31] Dependence on property tax has become even greater in older urban areas, where the tax base has been shrinking or increasing at a much lower rate than in suburban or new urban areas.[32]

The greater part of the tax increase in older cities was required to pay for increased services in the past two decades. Until 1973, expenditures by older cities increased at a far greater rate than that of offsetting receipts from higher levels of government. Although the rate of expenditures has dropped since 1973, property taxes continued to rise. This was primarily caused by increased wages for public employees and by the need for a shrinking tax base to maintain the existing level of services.

Many older cities have within their boundaries a large number of religious, educational, charitable, and governmental institutions which are customarily exempt from property taxation. Although these institutions consume public services like private structures, the costs of those services for non-taxpayers must be borne by the taxpayers. In 1976, for example, the total assessed value of all land and improvements in Newark, was $2,414,954,700. The tax-exempt portion of that amount was $1,333,705,400, or about 55 percent of total assessed value. This figure is believed to be low because it does not include municipal property in the assessment totals. This great degree of exemption, coupled with the increasing costs of education, health, welfare, and other city services, has driven Newark's tax rate sky-high. It is higher than the tax rates of eight other cities of comparable population, and higher than the rates of seven surrounding municipalities. This latter fact puts the adjacent towns in a better position to attract new industry.

In the cities it visited, the Commission was repeatedly told by officials and by citizens that property tax burdens were a significant obstacle to neighborhood revitalization. The commission could not survey every variation in local taxation systems, but it did identify the major problems in the existing systems.

Property Tax Burdens

There are at least five aspects of the property taxation system that create special obstacles to neighborhood revitalization. These are:

1. Rising municipal expenses

Higher budgets may require increased taxation if they are not offset by grants from state and federal governments. The two greatest sources of increased municipal expenses have been:

a. Rapidly rising public employee benefits. Between 1957 and 1977, the unit costs of state and local government services increased by 179 percent, while the price of other goods and services rose by only 108 percent. The additional increase in costs is attributable to extra public employee benefits, which more than tripled. Until taxpayer resistance increased in the 1970s, public employee salaries rose much faster than those of the average worker in the private sector.[33] At the same time, according to Lyle G. Fitch of the Institute for Public Administration, "Many indicators point to a decline in the quality and quantity of amenities affected by public services, as evidenced by increasing school dropouts, growing traffic congestion, worsening public transportation, dirtier streets, deteriorating housing stock, and other indications of declining public sector effectiveness."

b. State mandated expenses. Many states have enacted laws requiring cities to perform services or to enforce standards. Often these requirements are imposed without provision for increased state aid to offset the new mandated expenses. Cities have been forced to increase taxes to pay for these programs, often for welfare or social services.

2. An archaic, confusing and often unfair tax administration system.

The Commission did not have the resources to analyze every local taxation system in detail. However, its research and the testimony of officials and citizens identified the serious problems.

a. Tax assessments are often not based upon actual market value. Changes in the value of real estate are seldom reflected in tax assessments unless there is a sale which forces a reassessment. This places a special burden upon low and moderate income people who live in city neighborhoods where values can change quite rapidly. If an area is in decline, taxing property at its higher former value hastens abandonment. In "gentrifying" neighborhoods, however, a lower-than-market value tax assessment attracts upper income people, hastening displacement.

b. Citizens are often uninformed of their rights to appeal assessments or to receive abatements or exemptions, and intimidated by the complexity of the process. This places an extra burden on low and moderate income people and the elderly who least understand the system.

c. Officials have enacted taxes without direct accountability to the voters and taxpayers. Until recently, taxpayers were given little notice of proposed increases. Politicians were able to raise taxes with impunity because property owners were not organized or well-informed about the potential impact of taxes.

3. Regressive municipal finance policies.

Many of the policies implicit in the way municipalities finance public services have an unintended, negative effect on municipal finances. The policy which seems especially difficult to justify is provision of services without regard to the consumers' ability to pay for them. Cities have long assessed the cost of utilities or of special public improvements on the basis of use and of direct benefit. However, they also finance many free services out of general revenue regardless of the users' ability to pay.

4. Use of the tax power by local governments to implement political social and economic policies.

Cities have not limited tax administration to the goal of raising revenue. They have used their powers to grant permanent tax exemptions, to reduce tax burdens, and to freeze tax rates as tools to achieve other goals.

a. Tax exemptions have steadily increased in many cities, ostensibly to encourage religious, educational, charitable, and governmental institutions. Exemptions have also have been granted to encourage home ownership in the form of a flat "homestead exemption", or to relieve widows, the handicapped, and veterans of tax burdens. Encouraging nonprofit institutions and assisting the disadvantaged are worthwhile goals, but the expansion of exemptions has steadily reduced the pool of taxable property. This policy has been especially damaging in cities experiencing high rates of abandonment or declining land values. In Newark, for instance, at least 55 percent of all property is tax exempt; another 11 percent has been granted substantial tax abatement. This represents a loss of more than $1.5 billion dollars in potential assessments.

b. Tax abatements have become an increasingly popular device for attracting new industrial, commercial, and residential development. Abatements have been used successfully to attract new industries to suburban locations, so older cities have been forced to turn to the same policy to induce businesses to remain in urban areas. Local governments, understandably, are under great pressure to retain industrial jobs. Abatements,however, tend to shift the burden of increasing taxes from corporations to residential homeowners, a policy which encourages abandonment. Similar abatements to encourage residential rehabilitation have not been widely accepted, in part because homeowners fear increased tax assessments. New York's celebrated "J-51" abatement program for improvements to rent controlled multiple dwellings has recently been demonstrated to have permitted landlords to take massive tax cuts in return for minimum repairs.

c. Tax freezes and wholesale reductions have lately been employed by or imposed on local governments in an effort to relieve pressure on city property owners. Where loss of city revenue is not offset by other sources, freezes have had the unintended effect of forcing cuts in social, transportation, medical, and other services to disadvantaged people. At the same time, indiscriminate tax cuts and freezes tend to transfer proportionally greater benefits to large commercial and industrial property owners, rather than to the more numerous class of residential owners and tenants.

Reforming municipal property taxes

There are many options available to cities seeking to find a more equitable way to finance services and capital improvements and to stimulate neighborhood revitalization. The Commission's survey revealed clearly that the traditional property tax system achieves neither of these goals. The Commission's recommendations should be considered a framework for relieving the burdens of the existing system. The Commission does not wish to deter experimentation by local governments and citizens to find a system of taxation that satisfies special needs. Therefore, the spirit of the recommendations rather than all the details should be controlling.

1. Reduced Municipal Expenses

a. a concerted neighborhood based program to improve the efficiency and productivity of public programs to introduce cost effective techniques in service delivery, and to increase citizen satisfaction with city service. The fiscal problems of the cities will not be solved merely by extracting more funds from citizens or from higher levels of government. Although the Commission did not undertake an examination of all the techniques available for achieving greater productivity, it is convinced that many functions now performed by city bureaucracies might be better and more economically performed, with greater citizen satisfaction, by neighborhood subagencies or by private organizations.

These organizations could be given the freedom to meet their responsibilities in ways suitable and acceptable to neighborhood residents. This will undoubtedly require greater use of contract services among different public agencies and between public agencies and private contractors. Many neighborhood groups around the country have the capacity to become service contractors themselves. In some cases, neighborhood organizations may even accept responsibility for arranging service delivery, including entering into contracts with private vendors.

b. The National Commission on Neighborhoods also joins the Advisory Commission on Intergovernmental Relations in recommending that the federal government reimburse local governments for revenue losses caused by mandated expenses.[34]

2. Improved administration of the property tax system.

a. The National Commission on Neighborhoods recommends that an understandable and smoothly functioning notification and appeals system, which unambiguously informs each taxpayer of his or her assessment, fair market value, amount due, payment dates, appeals rights and procedures, and other relevant information, be established.

b. In all neighborhoods, especially those undergoing rapid economic change, reassessment of property should take place on a three year cycle.

c. Procedures should be established to insure that reductions property taxes are passed on to tenants. Often, such as in California after the passage of the Proposition 13 Constitutional Admendment, landlords and real estate developers view tax reductions as sources of speculative profit and don't pass the savings on in lowered rents.

d. Cooperation between tax adminstrators and other city officials in the development of an early warning system to deter neighborhood decline. Such a system should identify neighborhoods in which modest public and private efforts would forestall decline and bring improvements. Rises in tax delinquents, mortgage foreclosures, code violation rates, fires, and requests for zoning variances for lower quality uses are good indicators that a neighborhood is in trouble.

3. Reduced burdens on municipal finance.

a. The Commission recommends a limitation on the effective tax rate for residential units. State aid and/or broadened taxing power must be made available to local governments to make up for the short-fall in municipal revenues resulting from this limitation.

b. The definition of real property should be expanded to include intangible property such as stocks and bonds.

c. Property tax rates should relect the differing uses of land, i.e. residential vis-i-vis commercial or industrial

d. A state program of payments in lieu of taxes to local governments for vacant and abandoned property rehabilitated by community based organizations for low and moderate income families.

4. Implementation of social and economic policies.

a. Cities should grant tax abatements and freezes to commercial developers only if they accept a risk sharing system in which the city is reimbursed for its abatement by a special surcharge on profits if the venture succeeds. The Commission believes that all appeals for tax relief for businesses should be reviewed very carefully.

b. Cities should consider substituting cash grants and interest subsidies for abatements and exemptions for homeowners. Grants and subsidies can be targeted to provide the greatest assistance to persons with the least means. Grants could be used as an incentive for residents to create neighborhood-wide rehabilitation and improvement programs. This would create the economies of scale needed for rehabilitation and increase property values throughout the neighborhood. Responsible neighborhood groups should be considered as contractors to administer such a program on behalf of the city. Similar programs have been extremely successful in Boston and in St. Louis.

c. Cities should eliminate the homestead exemption from property taxes, substituting an income tax credit. This system, called a "circuit breaker," would permit homeowners and tenants to claim an income tax credit equal to all or a portion of their property tax. The amount would be calculated by computing the amount by which the property tax exceeds a stated percentage of income. When the rate is 5 percent, for example, a family earning $6,000 which has a property tax of $800 may claim a $500 income tax credit. If the credit exceeds total income tax liability, the difference is usually refundable in the form of an indirect subsidy. This technique is already being used in thirty states paying nearly $1 billion to five million households.

The "circuit breaker" is preferable to the homestead exemption. It can be targeted to those who need the greatest relief because they bear the heaviest burdens of tax in relation to income. It can be extended to tenants, on the assumption that some proportion of rent is used to pay property taxes. It does not reduce the city's tax base. And it does not violate state constitutional guarantees of property tax uniformity.

Cities should adopt rules establishing stabilized protective tax rates for neighborhood land trusts. The Trust for Public Land, through its National Urban Land Program, has pioneered in the creation of neighborhood land trusts in Newark and Oakland. The purpose of the program is to improve urban amenities, open space, and community cooperation, using previously vacant urban lots. In the first 4 years of the program, 55 lots in the 2 communities were returned to use as community gardens for residents, school children, and the elderly, as mini-parks and full-scale recreational areas. These lots were transferred to neighborhood controlled land trusts with deed restrictions to ensure use for community benefit. Obviously, where changes in the land market make these lost valuable for development in the future, they will bear an increasing burden of taxation. The trusts are, by their terms, incapable of selling the lots to developers for high prices, at least not without lengthy legal proceedings. They should, therefore, be exempted from increased taxation at full market value.

5. Additional funds for neighborhood revitalization projects.
The Commission recommends that states authorize the creation of neighborhood community service districts. Although they are more commonly used in unincorporated areas, public service districts are also useful in delivering a wide range of services to neighborhood residents. They are funded by being given the power levy a limited surcharge on the property tax, which is collected and remitted by city tax administrators. Of course, the tax levied by a community service district would be an extra tax burden on the residents. For this reason, the idea would probably be of little value in poor neighborhoods, unless some outside source of reimbursement (such as the tax "circuit breaker") could be located.

Neighborhood Revitalization and The Davis-Bacon Act

The rehabilitation of low and middle income housing is affected by a number of statutes and their implementing rules and regulations. Many of these requirements have been traditionally regarded by neighborhood organizations as impediments to the prompt construction and rehabilitation of economical housing. Because they often have been excluded from conventional credit and depend instead on government subsidies, donated materials, volunteer labor, and "sweat equity to reduce rehabilitation costs, neighborhood organizations are naturally sensitive to costs and in particular are concerned that the Davis-Bacon Act unnecessarily interferes with their efforts to rehabilitate neighborhood housing.

The fundamental principle of the Davis-Bacon Act is that the federal government, under its construction programs, shall not participate in depressing local wage conditions. Under the Act, the Secretary of Labor establishes the minimum wages to be paid to each class or craft of workers employed on construction projects costing in excess of $2,000 which are financed in whole or in part, by the federal government. Although Davis-Bacon applies only to contracts awarded by the federal government, the Act has been incorporated by reference into over 60 pieces of legislation involving federal grants, loans, or guarantees for construction acitvities carried on by state and local government agencies and by private contractors.

Among the related statutes are the U.S. Housing Act, the National Housing Act, the Housing and Community Development Act, and most of the

Federal Housing Administration's mortgage insurance programs. All of these programs are vital to neighborhood redevelopment.

Many community organizations have expressed concern about the possible effect of the Davis-Bacon Act on neighborhood revitalization projects. Many neighborhood revitalization efforts are successful because they rely largely on volunteers or because they are cooperative efforts in which the partners pay themselves low wages. However, Davis-Bacon tends to discourage these projects because it mandates paying the wage rate which prevails on similar projects in the locality, even though workers on neighborhood rehab projects are willing to work for much less.

Under Davis-Bacon, no wage rate less than the minimum wage prescribed in federal grants and loan guarantees may be paid. These wage rates are "journeyman" rates. Thus, even though an employee may be designated as an "apprentice", "trainee" or "helper" he or she must be paid the minimum wage rate stipulated in the grant or lown guarantee.

In addition, many neighborhood groups dislike the application of the Davis-Bacon Act to neighborhood rehab projects because it usually increases hourly wages and interferes with the social goal of training unskilled local residents to build and renovate their own housing. For instance, many claim that a substantial portion of the grants provided the neighborhood groups under the Comprehensive Employment and Training Act for rehab and winterization projects are consumed by Davis-Bacon wage requirements.

Accordingly, neighborhood organizations favor a waiver of Davis-Bacon requirement for building construction or rehabilitation sponsored by "bona fide" neighborhood improvement organizations. Davis-Bacon can pose problems for neighborhood rehabilitation projects. However, these problems are not universal. The intent of Davis-Bacon requirements neither run totally against the interests of neighborhood residents nor are they rigidly imposed. Wage rates restriction on jouneymen is designed to insure that contractors 1) do not merely designate lesser unskilled workers as "apprentices" or "trainees" in order to avoid paying the Davis-Bacon minimum wage or 2) fail to establish a true apprenticeship or training program. Furthermore, if an employee is enrolled in an apprenticeship or training program which is approved and registered with the Department of Labor or a recognized state apprenticeship and training agency, they can be paid less than the minimum wage prescribed in the contract.

The Department of Labor has interpreted the Davis-Bacon Act provision in CETA, (Section 125), very narrowly: projects funded exclusively by CETA are not required to pay Davis-Bacon minimum wage rates. Furthermore, the Davis-Bacon provisions in several housing grant and loan guarantee programs have been circumscribed, either legislatively or administratively, so that the minimum wage requirement is inapplicable to the construction or renovation of single family or lowrise multi-family dwellings. For example, the Davis-Bacon provision in Title I of the Housing and Community Development Act of 1974 is inapplicable to residential units designed for less than eight families. Similarly, the Department of Housing and Urban Development has determined that the Davis-Bacon provision in the U.S. Housing Act of 1937 is not applicable to "major repairs" performed on federally funded public housing projects.

These and other restrictions on the application of the Davis-Bacon Act to federally financed low income housing construction, as well as the fact that the Davis-Bacon rates applied to low rise apartment construction are generally lower than collectively bargained wage rates in the area, significantly reduce the magnitude of the impact which Davis-Bacon supposedly has on the construction of low income housing.

Even more importantly, where higher collectively bargained wage rates otherwise prevail on residential construction and are applicable to a federally financed housing project, many building trades unions have attempted to accommodate the social goals embodied in neighborhood renovation programs. For instance, in Los Angeles, New York, and Philadelphia, the local building trades have negotiated lower wage rates and agreed to journeymen apprentice ratios which permit as many as 50 percent of the workers to be apprentices on federally financed housing rehabilitation construction. In those areas, as well as in Chicago and Phoenix, the building trades unions are participating in training programs funded by CETA in which journeymen are assigned to supervise and train neighborhood residents while they perform winterization and rehab work. Those participants who exhibit the necessary aptitude and ability are given preferential treatment in competing for placement in apprenticeship and training programs jointly operated by labor and management.

In Los Angeles, a program was established by HUD in which a large amount of rehab work was promised by the city if the Building Trades Council agreed to accept a one-to-one ratio of trainees to journeymen after completion of two years of traineeship, the trainees were to be admitted into the respective unions as “rehabilitation mechanics”. Although these mechanics would be qualified to work only on rehabilitation jobs, they would qualify for new residential, commercial, and industrial work by continuing their apprenticeship until all qualifications were met. Unfortunately, HUD was unable to find developers willing to build the promised projects, and the agreement could not be implemented.

The Commission applauds and encourages these attempts to reach an equitable, voluntary solution to this problem. Accordingly, the Commission recommends that direct discussions among neighborhood groups, public agencies and trade unions continue to be expanded to further develop creative approaches to the achievement of the social goals of expanding the supply of low cost housing and providing employment and training opportunities to neighborhood residents without undermining prevailing labor standards. These goals are not mutually exclusive and imaginative programs can promote all of them. The Commission understands that trade unions recognize the importance of this issue and are willing to meet with community groups to search for solutions. The key is a collective effort among all parties involved in the problem. We strongly endorse this continuing dialogue.

Building Codes

Governmental responsibility for regulating the construction industry in the interest of public health and safety extends far back into American history. The breadth of municipal police powers has been extended to include official oversight of construction practices, the installation and maintenance of plumbing and electrical systems, fire safety, and sanitation. The exercise of these powers started as a progressive social reform designed to protect public safety. Municipal codes were frequently rewritten to serve the interests of powerful commercial interests. Complex, unresponsive bureaucracies have mushroomed in many municipalities, reducing the likelihood that the law will be administered in the interests of low and moderate income people. Municipal codes enforcement have recently come under steadily increasing attack. The Commission decided to examine in detail one of the key points of contention in which neighborhood organizations are most interested—the effect of building codes on the rehabilitation of older urban housing.

A building code is a document which prescribes in detail the materials and standards that all construction must meet. There are four major model building codes in use in the United States, all drafted by private trades organizations: the BOCA Basic Building Code (Building Officials Conference of America); the Uniform Building Code (International Conference of Building Officials); the Southern Standard Building Code; and the National Building Code (American Insurance Association). There are also a number of specialized codes, such as the National Electrical Code and the National Plumbing Code. The major code drafting organizations have reached agreement on a uniform Model Code for One and Two-Family Residences, but there is as yet no model code adapted to the special needs of older housing rehabilitation.

Building standards have traditionally been enforced by municipalities which incorporated a code into their ordinances. A city government may merely refer to a particular model code, but many cities have either written their own codes or added numerous amendments to the model codes. These changes in the codes are usually added at the insistence of and for the protection of local commercial interests.

The ordinance makes it a punishable offense for any person to engage in covered construction without first securing a municipal building permit. The ordinance also creates or designates a city agency to review applications for permits, perform field inspections, and issue permits. Criticism of the effect of these rules and the way they are enforced has recently come not only from builders but also from citizen groups and from neighborhood organizations seeking to rehabilitate dilapidated buildings. They argue that:

A. Building codes have artifically increased the costs of new housing construction and rehabilitation.

The diversity of code rules from jurisdiction to jurisdiction prevents builders from achieving economies of scale in providing construction services. Builders must either accept excessive overhead costs in product design and variation of work-site techniques or concentrate within a limited number of jurisdictions where they will seek higher prices to compensate for lower volume. While the effect of code enforcement on housing rehabilitation costs is a matter of dispute, it seems reasonable to expect that current practices add as much as 10 percent to the costs of each unit. The code administration system has become so complicated, laborious and expensive that it discourages construction and rehabilitation. Frequently, a number of different permits are required. There are delays while agencies ponder plans. A study of graft in the New York City building department revealed that most bribes to inspectors were made not to secure some exemption from code requirements, but to get permit applications up to the top of the approval pile.

B. Building codes have inflated the costs of suburban housing.

The policy has also prevented lower income people from purchasing homes. Some municipalities reason that low cost housing will attract lower income families with small children, minority families, and the poor. These potential residents are viewed as "tax eaters." Exorbitant building code requirements, coupled with exclusionary zoning rules, are used to drive up the cost of housing, tending to restrict the market to stable, middle or upper-income families.

C. Building codes have often inhibited innovation in construction technology.

The codes specify materials ("2 x 4 inch joists") rather than establishing performance standards for equivalent materials. Less expensive, but equally safe materials are prohibited. The use of material specifications also gives manufacturers and labor organizations an incentive to "rig" local codes to favor their products and to increase labor costs.

D. Building codes encourage demolition rather than restoration and reuse of older urban structures.

Many buildings cannot be economically adapted to meet requirements for new construction. For example, there was a plan to convert an old five-story garment factory in Boston into apartments. The code specified a stair width far in excess of that required when the building was first built. The rule was justified when the building was first built by the argument that, in case of fire, the tenants would need to exit as rapidly as possible. However, widening the staircases would have required relocating major structural components in all five floors of the building, rebuilding the entire floor joist structure, and ripping up all the old floors. Because the building was being rehabilitated to house only ten families, the existing stairs were clearly adequate to handle emergency traffic. Yet, it was technically in violation of the code on this. In this case, the city, after lengthy negotiations, agreed to grant a special exception. In many other instances, sound structures are demolished because of the impossibility of conversion or the costliness of potential delays while exceptions are sought.

E. Building Codes place impossible administrative and legal burdens on building inspectors.

In some jurisdictions, the rules are so rigid that inspectors have no discretion to cope with unique situations. A former chief building official has stated to the Commission that "half of downtown Los Angeles" was demolished to build high rises under rules that discouraged renovation of older structures. On the other hand, attempts to liberalize the rules have been undercut by the imposition of personal liability on inspectors for later construction defects. There is no reason for an inspector to jeopardize his job and his income by approving materials that vary from the letter of the code.

F. Recommendations for Immediate Action

Federal, state and local officials should immediately reform the existing system to reduce the cost and problems of traditional code enforcement. For the short term, the Commission specifically endorses the recommendations on code reform made by the National Commission on Urban Problems (the Douglas Commission) in 1968 and in several subsequent studies. These recommendations include:

1. Improving national model codes by shifting from specifying materials to establishing general performance standards.

2. Consolidating the four national model codes as much as possible to assure uniformity.

3. Strengthening and accelerating the testing and approval of new materials technology by the National Institute of Building Sciences, the National Bureau of Standards, and other such bodies.

4. Drafting model rehabilitation guidelines which respond to the special needs of urban rehabilitation projects. The rules should emphasize the use of less expensive materials and permit inspectors to use reasonable discretion in approving projects. The 1971 HUD sponsored BOCA Rehabilitation

Guidelines were a failure. Section 903 of the Housing and Community Development Act of 1978 directs HUD to try again.

5. Establishing statewide building codes as a ceiling. Municipalities should be prohibited from enacting rules more restrictive than the state standards.

6. Denying federal housing subsidies to jurisdictions which maintain unreasonably restrictive building code requirements. HUD exercised this power against the city of Los Angeles, which had refused to permit Romex electrical cable in its code. The city relented.

7. Providing training courses and technical assistance to local building code departments and their personnel.

8. Encouraging local administrative improvements, especially one-stop shopping for building permits.

9. Providing a state building code appeals board to settle disputes between builders and inspectors. This system has been established in Massachusetts.

10. Offering pre-permit counseling for builders, homeowners, and neighborhood housing corporations to familiarize them with local code requirements.

11. Creating a surety bond program to protect inspectors from liability suits in situations where they are required to use their professional judgment in interpreting the code. Alternatively, the inspector should be relieved by statute of all liability other than for gross negligence.

12. The HUD Minimum Property Standards should be amended so that they are satisfied when a building complies with an approved local building code.

G. Recommendations for Long Term Reform

Under the present system, the rules are essentially a checklist which can be mechanically applied by the inspector acting in a purely ministerial capacity. If the building fails to meet any specific criterion, the inspector is justified in refusing a permit. This system also tends to retard innovation in construction technology, is easily captured by special interests, and deters rehabilitation of existing structures.

A flexible code enforcement system may seem a reasonable solution. Under the flexible approach, codes are changed from a set of detailed specifications to broad, flexible guidelines. Inspectors are given considerable discretion to use their judgment. This, however, creates a new set of problems. Rather than mechanically enforcing rules, the inspector now would have to make sophisticated judgments about the design capacity of the structure. This would require a high level of expertise, for which inspectors would have to be trained and paid. The changes would also make inspectors vulnerable to attack by irate builders demanding permits. Unless of the threat of personal liability was removed, inspectors would be likely to simply apply the strictest standards. Finally, a flexible approach to code enforcement does not eliminate the incentive for powerful economic interests to shape the codes to eliminate rival products or to prevent the adoption of labor-saving techniques.

In recent years some groundwork has been laid for basic structural reform of the traditional building code enforcement system. The French experience, built upon the legal liability of contractors under the civil code, may offer one a workable model. Both the National Association of Home Builders and the National Association of Realtors have developed and implemented warranty protection plans for home buyers. The 1977 New Jersey New Home Warranty and Builder's Registration Act provides protection to home purchasers through registration of contractors and their mandatory participation in either an approved private warranty protection plan, or a state-operated "Home Warranty Security Fund."

The Commission recommends that states build upon this experience by restructuring their building safety programs.

1. Jurisdictions should adopt a basic life safety code derived from present codes, covering structural safety, fire safety and egress.

2. Jurisdictions should develop a set of generally accepted, performance-based guidelines for new construction and for rehabilitation of older structures. The National Conference of States on Building Codes and Standards, the National Institute of Building Sciences, the Conference of American Building Officials, and industry experts should work with HUD to discharge the mandate of Section 6/903 of the Housing and Urban Development Act of 1978.

3. Jurisdictions should provide for certification by licensed design professionals (architects and engineers) of compliance with, and departure from, the guidelines on all larger projects. These certificates should be filed as a matter of public record and indexed in the land record information system. The design profession should be allowed to allocate up to 15 percent of annual gross receipts to a tax-deductible loss reserve account. This would allow architectural and engineering firms to effectively self-insure against the deductible portion of their professional malpractice insurance coverage.

4. Contractors should be required to provide a ten-year warranty of the performance of major building systems and shorter warranties for other construction components.

5. Rehabilitation contractors should be registered. An information system should publicize the contractors' performance records to prospective customers, lenders, insurance carriers, and neighborhood housing sponsors. State registration agencies should suspend or cancel registration for irresponsible performance.

Zoning and Land Use Controls

The use of zoning as the principal tool for controlling the development of land has come under increasing attack. From the point of view of low and moderate income citizens, perhaps its most objectionable consequence has been the "single use" rules limiting economic development potential in lower income neighborhoods. According to Congressmen Henry Reuss, Chairman of the House Banking, Finance, and Urban Affairs Committee, "As big as factor as any in the decline of the neighborhood is single use zoning."[36] Congressman Reuss cites a statement by former Governor Tom McCall of Oregon as evidence for his argument:

> "You remember the cities where we had a laundry in the basement, a grocery store on the first floor, doctor's offices on the third and an apartment on the fourth. And next door there might have been an apartment in the basement, a tailor on the first floor, a lawyer's office on the second and another apartment on the third.

> In retrospect, we've learned to call this multiuse zoning. Commercial and residential units were in direct proximity. No one had to walk very far to satisfy his basic needs for food, clothing, and recreation. Once people had to break out of their old neighborhoods, they had to commute to work. They also had to begin driving to the grocery store and the laundry. And instead of walking to visit old friends, they started driving. Housing sprang up faster than the little shops could move to follow. But eventually they tried to follow, or went broke, but the result was the same: the old neighborhood became vacant.
>
> The cities didn't think much of all this. But instead of guarding against it, they went along with it. So we came to have neat little patterns of land use—houses here, commerce there, industry over there, and schools so distant that children no longer could (or would) walk there. [multiuse zoning]... was better, at least from the standpoint of neighborliness and energy conservation, but it wasn't tidy... By going to contiguous rather than multiuse zoning, people eventually were forced away from where they might have wanted to be...
>
> The living experience—the quality of life—that the neighborhood community afforded is essentially gone. And we traded it for a zoning concept that can't be supported from either an energy or an economic standpoint."

Those who sought to impose the tidiness of zoning upon urban neighborhoods obviously had little appreciation for the richness and diversity of land use, occupations, and community life that had developed in the absence of zoning. The contrast between tightly zoned urban centers and unzoned urban areas is most dramatic in Houston, the largest American city which does not have zoning. In the Montrose neighborhood of Houston, garden apartments, television repair stores, boutiques, ethnic restaurants, and housing commanding six-figure prices exist side by side. The area is vital and alive; in fact, it attracts restaurant-goers and shoppers from all over the city. There have been three citywide referenda on the question of zoning; each time the proponents of zoning have lost. It is significant to note that lower income election districts produced the greatest majorities against zoning; upper income neighborhoods supported zoning over-whelmingly.

If lower income citizens can save a little each week, take night school courses in television repair or hair dressing, and start a business part time by converting the front parlor of the family home, they can hope to build up the business to the point where they can leave old jobs and open up a bigger shop in a better location. Zoning defeats this aspiration. By requiring separation of uses, zoning prevents the lower income entrepreneur from using his or her front parlor to start a business. Instead, he or she must raise the capital to lease commercial space elsewhere and absorb the extra costs of commuting between job and home. Separate uses increase the opportunity for burglars to rob the store while the owner is away. The entrepreneur cannot depend on his network of neighborhood contacts and friendships to provide his first business; his neighbors often cannot afford to come to the new location.

It has been said that zoning can be adapted to modern community needs through variances, floating zones, exemptions, and the like. Indeed it can, but it is more frequently adapted to suit the interests of the affluent. For example, consider the development of large-scale "mixed use" buildings now in vogue among urban planners, architects and real estate developers . Land planning philosophy emphasizes the need to squeeze as much economic potential as possible from expensive, highly taxed, inner city land. It is common for new skyscrapers to include condominiums on the uppermost floors, offices in the middle, and hotels and shopping centers at the base. Examples of mixed use developments are Detroit's Renaissance Center, Chicago's John Hancock Tower and Water Tower Place, and Toronto's Eaton Centre.

These mixed use facilitiesk create an exciting urban lifestyle which is especially attractive to the rich and to business firms looking for stylish, in-town offices. The constant flow of people and commercial activity increases the amount of direct and indirect revenue generated by more intense use of the land. There are obvious differences in scale between a new mixed-use structure and an urban neighborhood zoned multi-use. But the economic principles underlying each are the same. Strict zoning prevents low and moderate income families from extracting the maximum benefit from more intensive uses of their property; but the affluent are permitted to live, work and shop in a climate-controlled simulation of an zoned multi-use urban neighborhood. In addition to restricting economic opportunities in lower income neighborhoods, zoning has also been used to exclude lower income and nonwhite people from housing opportunities in the suburbs.

The Commission recommends that cities and states seriously consider alternative techniques for guiding land use and development.

A.

Private covenants earned a bad name when they were used to block the sale of homes to blacks, Jews, and other minorities. Since 1949, however, discriminatory covenants have been unenforceable and therefore of no practical effect. More recently, the private covenant system has been used widely in cities like Houston as an effective substitute for involuntary land controls. In Houston, developers convey homes in subdivisions subject to a 25 year covenant governing upkeep and conversion to other uses. Purchasers who violate the terms of the covenant are subject to private civil action by adjacent property owners.

The covenant system is especially attractive because its restrictions can be completely reexamined at the end of a set term of years. In Houston, some home owners associations renewed their covenants at the end of the 25 year period. In other neighborhoods, changed economic and social conditions made changes in obsolete use restrictions desirable. Private covenants should be incorporated into municipal planning through a system of registration, monitoring, and public enforcement of complaints.[37]

B.

Transferable development rights (TDRs) are becoming an increasingly popular tool for influencing land use decisions. In the simplest version, the municipality first establishes a schedule of TDR units required to construct various kindsk of development. It then apportions a fixed number of TDR units to property owners on the basis of the number of acres in the city. If a developer's parcel does not have enough TDR units to qualify for the development he has in mind, he must purchase rights from other owners. More intensive development on one parcel is therefore balanced by less intensive development elsewhere. The market determines development locations. Much research has been done on this technique in the past five years and the Commission expects it to become a more common practice.

C.

Direct public ownership and redevelopment of land is a promising alternative to conventional zoning. Strangely, it has traditionally been considered inappropriate for municipalities in the United States to participate actively in land financing and development. Federally furnished urban renewal programs merely left the cities burdened with acres of unmarketable vacant land in the center city. There are examples, however, of successful programs in which cities have actively participated with the private sector in large scale and development. Edmonton, Alberta, in Canada, has a widely acclaimed marketing program for publicly-owned land. The key to its success has been the use of positive economic incentives and direct ownership rather than regulations to shape the growth of the city.

The Commission hopes that cities will accelerate their efforts to develop practical alternatives to conventional zoning. The Commission believes that neighborhood organizations can and should plan an important role in the development of new techniques and that the cities can build new systems with the goal of facilitating diverse, open, vibrant urban neighborhoods. The Commission recommends further that HUD provide technical assistance, information, and demonstration funding to cities and to neighborhood organizations involved in this process.

The Property Information System

The indispensable first step in acquiring a building is identifying who has an interest in the property. For neighborhood organizations seeking to rehabilitate buildings, this can be a costly, frustrating, and time-consuming task. The principal reason for this is the archaic land records system used in most states, a system which is little changed since it was invented in 18th century England. The four characteristics of this system are:

1. The instrument of title, or deed, must be acknowledged before a public official prior to being recorded;

2. The entire instrument must be recorded, not merely a memorandum of transfer;

3. The act of recording generally assures the "grantee" (buyer) priority in right against prior unrecorded and subsequent claims of ownership, and

4. Title passes when the instrument is signed, whether or not it is subsequently recorded.

As one commentator has said, land recording "does not affirm rights [to property]: it merely receives and stores claims."[38]

The last person whose name appears on a recorded deed may not be the person who has a true interest in the property. In some states, in fact, there is no requirement that property transactions be recorded before they are enforceable. Many buyers have good reason—legitimate and illegitimate—not to record their interest.

Even if an interest is recorded, most jurisdictions require very little information to be revealed. One survey in 1971 discovered that 95 percent of local governments indexed records only by the names of the parties involved (in a "grantor-grantee index").[39] This requires outsiders to know the names of the owners before they can identify ownership. The existence of phony partnerships, shell corporations, and blind trusts in some cities can also mask the identity of the true owners. This is a particularly frustrating thing for neighborhood groups, that know only the addresses of the building they wish to acquire. It may be impossible to find out the name of "actual" owners without the expensive services of title companies or an attorney who specializes in property matters.

The difficulties in identifying property owners are compounded by the problem of acquiring title free of hidden encumberances. Most recording systems do not centralize information on all transactions which may affect the marketability of the title. For example, valid tax liens, judgment liens, or workmen's liens may not appear in deed indices. The Commission heard frequent complaints from neighborhood leaders about the problem of establishing claims to buildings they were attempting to rehabilitate. Nothing can dampen the enthusiasm of a neighborhood group like a prolonged and expensive battle to establish ownership and to quiet claims against the title.

Because of the unreasonable burden that traditional land recording places on citizens, officials, and housing industry professionals, the Commission recommends that city and county governments, with the assistance of state and federal governments, redesign their land information systems. Every effort should be made to create a system which is easily accessible, low cost, and as comprehensive as possible. In the Commission's judgment, there are three reforms which can remove many of the legal obstacles to the acquisition and rehabilitation of property by neighborhood organizations.

A Comprehensive, Consolidated Land Records Systems

The computerized, tract-indexed recording system used in Forsyth County, North Carolina (which includes the city of Winston-Salem) is an excellent model for other municipalities. In 1973, the County Registrar of Deed and the Tax Administrator launched an ambitious program for consolidating the county's land information records. Their objective was to establish a comprehensive information system for local government, using land records as a base. Information included in the new, computerized system includes not only the usual information about title, but also encumbrances, tax information, zoning, and personal information about the current owners. This information is easily accessible on a standard cathode ray computer terminal. Interested public agencies will have terminals in their offices, and private parties such as attorneys, banks, and realtors may lease a terminal of their own.

This system can be very useful in planning the distribution of city services. The fire department can plot the incidences of fires. Public transportation agencies can plan improved bus routes. The tax department can quickly update the current tax status of any parcel. The city planning department will be able to predict future public needs more accurately. For neighborhood groups seeking to acquire and rehabilitate properties, in only a few minutes before a cathode ray screen the groups could read virtually everything of importance about the parcel.

Title Registration

The most effective method for eliminating the threat of hidden title defects is the adoption of a land registration system. Often called the "Torrens" system after its Australian inventor, land registration has four characteristics:[41] initial resolution of all competing claims to property by a government agency; certification of good title by the agency, including a guarantee against all hidden defects; indemnification of losses due to improper certification with a fund for this purpose maintained by government; and inexpensive land transactions after the initial resolution of claims. A Torrens registration is similar to an automobile registration certificate. Because all questions of hidden defects have been settled, there is no need for title searches or title insurance. One small piece of paper represents guaranteed title to the land.

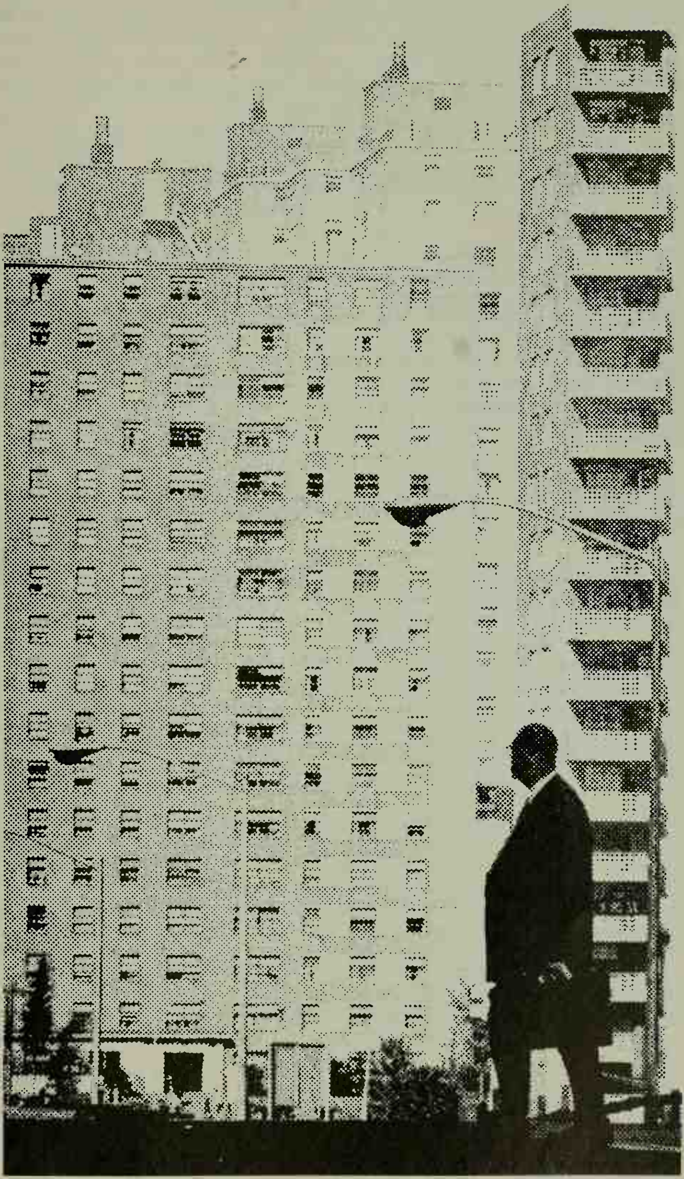
Although 12 states have adopted some form of Torrens system, there are at least three reasons why it has not been more widely accepted. The initial costs are high since each title must be certified by judicial action. Indemnity claims can be prohibitive. A 1937 claim against the California Torrens Indemnity fund was so staggering that other states have been reluctant to underwrite certification; and strong opposition has come from title companies and others who have a stake in the presant recording system.

These problems can be overcome if HUD, on a demonstration basis, provides funds to state and local governments to finance Torrens systems. HUD would have to pay a large but steady declining amount for mass-production certifications and to reinsure the statewide indemnity fund.

Simplified Conveyancing, Statutes

The Commission recommends that a uniform conveyancing statute be adopted, which simplifies and reduces the cost of conveying property as much as possible. One model may be the Uniform Simplification of Land Transfers Act, published by the National Conference of Commissioners on Uniform State Laws in 1977. In any case states should speed the title searching process by imposing 30 or 40 year statutes of limitations on dormant claims of title.

Delivery of Human Services



Delivery of Human Services

Human Services on a Human Scale

Social services provide individuals and families assistance in coping with the problems, stresses, and crises of everyday life. These services can include counseling for families or individuals in the midst of emotional pressure; day care facilities which allow mothers to work; specialized transportation systems which get senior citizens to shopping centers; nutrition programs which improve the diets of children; or aid for people with legal problems. However, day-to-day problems do not fit neatly into little boxes. People are also concerned about employment training, health care, and crosscutting neighborhood problems, such as crime, education, and transportation combined with resident input into the formulation of solutions and services delivery—these are human services.

In an earlier era these services were informal and unstructured. People in need turned to their family, their community and their church for aid and support. As society became more complex, secular institutions were established to help individuals function more adequately in the social and economic environment in which they found themselves. At the turn of the century, social services in the United States were provided by such neighborhood-based organizations as the settlement house and the political ward club. Over the last eighty years, the ties to the neighborhood have been broken as large, impersonal bureaucratic institutions have come increasingly to dominate the human services domain.

In this section of its report, the Commission has set out to determine ways in which a neighborhood focus can be restored to organized human services in the United States.

Today, the neighborhood is still the place where people develop those face-to-face relationships that give them support and assistance in times of need. The Commission believes that neighborhood service systems can and should be built upon these informal support networks and upon the complex of human scale organizations that operate at the neighborhood level—the churches, small businesses, ethnic organizations, and civic groups that contribute so much to the richness and diversity of contemporary urban life. The Commission believes, moreover, that public-private partnerships at the neighborhood level can overcome the bureaucratization of services that tend to sap self-reliance, weaken voluntarism, and inspire alienation.

The basic assumption underlying the work of the Commission is that neighborhoods must be empowered to develop their own service systems, using self-help mechanisms that already exist in the community. Professional services should play a supportive role and must be designed to contribute to neighborhood empowerment. The Commission will examine the federal role in the delivery of human services, the current pattern of services in typical urban neighborhoods, and the issues that must be addressed in the development of neighborhood human services systems. Finally, the Commission will propose ways in which policies and resources can be redirected to create new service arrangements that more adequately meet the needs of individuals and neighborhoods.

Federal Role in the Delivery of Human Services

Historical Background

Federal involvement in human services began at the turn of the century when a group of political and social reformers, part of the progressive movement, began focusing national attention on the industrial revolution and its harmful impact on children and families.[1] The concerns raised by the progressives led to such early efforts as the Children's Bureau, the vocational education program, and the maternal and child health program. Each of these federal initiatives provided service in partnership with state governments. Until 1933, state and local governments, along with a wide array of private charitable organizations, were the principal providers of organized human services.

The Great Depression brought about a major upheaval in the pattern of state, local, and privately financed services. With the passage of the Social Security Act, which became the basic statutory framework for the federal social services system, the federal government began providing direct income support payments to certain designated groups of people, principally the elderly, the disabled, the blind, and dependent children.

Through the early 1960s, new federal efforts in the human services field came largely in the form of amendments to the Social Security Act. With the advent of the Great Society of the Johnson Administration, the federal focus was broadened considerably. The period from 1963 to 1966 saw the enactment of a large number of new programs in the areas of health, education, employment and training, nutrition, and the prevention of juvenile delinquency. The centerpiece of the Great Society was the Economic Opportunity Act of 1964, which represented a new approach to the problem of poverty and deprivation in America. The Office of Economic Opportunity, created by the 1964 Act, provided educational, employment, health, and child development services for low income people. Yet OEO was intended to be something more than a funding channel for human services activities. Underlying the 1964 Act was a belief that the capacity of the poor to pull themselves out of poverty would be enhanced if they were given a significant measure of control over the organization and delivery of those services that were intended to aid them. In order to bring about the "maximum feasible participation" of the poor in the design and implementation of the new service programs, federal funding was channeled directly to a national network of private, nonprofit organizations representing the poor—the community action agencies—which operated independently, at least initially, from the state and local governments within whose jurisdictions they were located.[2]

The proliferation of federal programs during the mid and late 1960's led to an increasing fragmentation of services, as one program after another, each with its own regulations and funding channels, was established on the local level. The rapid growth in federal categorical programs, along with a reaction by public officials to the community control techniques fostered by the poverty program, led to a growing call by state and local governments for the consolidation of human services into functional programs that the states, cities, and counties could manage with maximum flexibility and autonomy. This approach, adopted by the Nixon Administration in its New Federalism policy, was implemented during the mid 1970's through a series of federal block grant programs. Employment and training activities were consolidated through the Comprehensive Employment and Training Act (CETA); urban renewal and community development programs were brought together in the Community Development Block Grant Program (CDBG); and social services financed under the Social Security Act were reorganized under the Title XX program.

Social Service Grants to the States

Title XX, enacted in 1975, had its antecedents in the 1956 amendments to the Social Security Act which authorized federal matching grants to the states for the delivery of social services to welfare recipients.[3] The 1956 legislation, which expanded Titles IVa and VI of the original 1935 Social Security Act, represented a response to the phenomenon of rising welfare case loads during a period of economic prosperity, and the recognition that an improving economy, in and of itself, would not reduce the need for public assistance. The architects of the 1956 amendments argued that welfare recipients needed counseling and social services in order to become economically self-sufficient and that they should receive these services from social workers whose salaries were paid with federal funds. In 1962, the social services program was broadened by increasing federal matching money from 50 percent to 75 percent of costs and by allowing past and potential as well as current recipients to receive services. Another key feature of the 1962 legislation permitted state and local public welfare agencies to purchase services for their recipients from other state agencies.

By 1967, with the social services amendments up for renewal in Congress, it was clear that the 1962 legislation had not achieved its intended results. The service strategy was supposed to reduce caseloads. Instead the reverse has occurred; caseloads soared in the five years since the amendments. In response to this seemingly intractable problem of rising caseloads, yet another new approach was written into the Social Security Act of 1967. The amendments passed then emphasized so-called "hard services" such as day care, job training, and homemakers services, in contrast with traditional social work counseling, which was viewed as a "soft" service. The amendments required states to provide programs to train and motivate past, present, and potential Aid for Dependent Children (AFDC) recipients for employment and to encourage families to receive family planning services. Social services were to be linked to a new AFDC job training and job placement program, the Work Incentive Program (WIN), administered by the Department of Labor. Under WIN, all AFDC applicants were required to register for work and training and public assistance caseworkers were given the responsibility for identifying employable recipients and referring them for training and placement. The 1967 amendments also expanded the purchase-of-service approach written into the 1962 amendments by extending it to private, nonprofit service providers.

The four-year period following the 1967 amendments brought a huge increase in federal spending for social services as states learned how to make effective use of the new legislation. Increasingly, federal social service dollars were used to provide fiscal relief for the states: activities that had previously been funded entirely with state tax dollars were converted to federal-aid programs, since there was no requirement that federal funds had to be used for new or expanded activities. Moreover, as long as states could provide the required 25 percent of matching funds, states found that the HEW-funded social service program provided a virtually inexhaustible supply of federal dollars. The social service provisions in the Social Security Act were considered open-ended entitlements, which meant that HEW was legally obligated to provide federal matching grants (in this case three dollars in federal funds for every one dollar in state funds) as long as the states could provide their share of the match.

Widespread concern in Congress about the ballooning nature of federal funding for social services led to the enactment in 1972 of a $2.5 billion ceiling on federal social service expenditures.[4] The 1972 funding limitation provision, added as an amendment to the General Revenue Sharing Act, also included a state funding formula based on each state's relative population size. The legislation stipulated, moreover, that 90 percent of each state's funds had to be spent on services for current welfare recipients. An exception to this targeting requirement was made for child care, family planning, foster care services, and services to the mentally retarded, alcoholics and drug addicts.

Following a two-year controversy between Congress and the Nixon Administration over proposed regulations intended to implement the 1972 amendments, Congress acted in 1974 to codify and restructure the social services program by adding a new title to the Social Security Act—Title XX. The new legislation, signed into law in 1975 as PL 93-647, organized ongoing federal-state relationships in the social services area. It provided new planning and administrative requirements for a program whose basic structure had already been established in earlier legislation.

The Current Federal System

The New Federalism, the Great Society, and earlier federal initiatives in the area of human services have left more than 30 separate federal programs located in seven federal departments and agencies that spend over $9 billion annually to provide a broad range of services to individuals and families.[5] In addition to Title XX social services, this array of federal programs consists of a group of HEW-administered activities, including areawide planning and social services for the elderly, community mental health services, and state grants for rehabilitation services.

Other agencies involved in funding social services include the Department of Agriculture, which operates several nutrition programs including the school lunch and breakfast programs; the Justice Department, which administers the community anti-crime, juvenile justice, and delinquency prevention programs; ACTION, which operates several domestic volunteer programs including Volunteers in Service to America (VISTA); the Community Services Administration which funds local community action programs; and the Legal Services Corporation which provides legal services for low income people through its legal services projects.

Funding for these programs is passed to the neighborhoods through a variety of grant-in-aid mechanisms. Federal agencies may allocate federal dollars in the form of block grants, which permit state and local governments to finance a large number of activities within a specialized area (Title XX) or they may provide categorical grants to carry out specific discrete programs authorized by Congress (nutrition for the elderly, school lunch, and breakfast programs). Funding may be allocated directly to private, nonprofit community agencies that offer services at a neighborhood level (community mental health centers). More often, it is channeled to state, county, and city governments, which provide neighborhood-based services directly or contract with other public or private agencies to deliver these services (Title XX). Federal dollars may also be routed through state governments to areawide or regional agencies which fund neighborhood service projects (Title III areawide planning and services for the elderly).

With the exception of certain small-scale efforts such as LEAA's Community Anti-Crime Program, direct federal funding has generally not been available to voluntary neighborhood organizations that operate their own human services programs. Many of these organizations have made extensive use of federal funds, particularly for day care services, but this funding has usually come through state and local governments.

While an examination of the full range of federal human services programs is beyond the scope of this report, a brief analysis of certain relevant neighborhood programs can provide a more complete understanding of the federal human services system.

Services for the Elderly

The Older Americans Act, passed in 1965, constitutes the basic statutory framework for research, training, service, and advocacy programs administered by HEW's Administration on Aging.[6] In 1973, amendments to the Older Americans Act shifted the focus of the legislation by establishing the Title III Area Planning and Social Services Program.[7] This program is designed to provide a comprehensive network of services at the substate or regional level to enable older people to live in their own homes and communities as long as possible. This service network is to be created and maintained in each regional area by an Area Agency on Aging.

These federally-supported agencies, whose service areas usually cover one or more counties, may be councils of government (COGS), local governments, or private nonprofit organizations. They receive their designation from State Units on Aging which, in turn, are designated by the governor of the state. The Area Agencies may provide services directly, but their more important function is to operate as catalysts to stimulate the development of new services for the elderly and improve linkages between existing services. Each year, the Area Agencies are required to prepare plans for the development of the service networks. The area plans are submitted to the state aging agencies where they are reviewed and transmitted to HEW for final approval.

Approval of the state plans by HEW triggers the allocation of Title III funds, which are distributed to the states according to a formula taking into account each state's relative share of the total U.S. population over the age of 60. Funds are allocated by the state agencies to the Area Agencies for distribution to local service agencies to fill in the gaps in the local service programs. Funding is available for a broad range of activities including homemaker and home health services, multipurpose senior center programs, transportation services, information and referral, and legal and financial counseling. There are links to activities funded under other titles of the Older Americans Act, such as Title X, which provides funds to acquire and renovate multipurpose senior center facilities, and Title VII, which supports nutrition and congregate dining programs for the elderly.

The Title III dollars that the Area Agencies distribute to local service providers are in the form of seed money grants, which are generally available for only three years. During the first year, 90 percent of the project costs may be paid with federal funds, with 75 percent federal participation in the second year, and 50 percent in the third. Thus, a local match of 10 percent, 25 percent and 50 percent, is required for the first, second and third years, respectively.

Unlike Title XX social services, Title III does not establish detailed eligibility requirements for service recipients. Generally, the services provided by the separate projects are available to anyone over the age of 60. However, priority in the allocation of funds by the Area Agencies is given to those projects serving low income, minority, isolated, or disabled older people. Those recipients who can help defray the cost of the services are expected to do so.

The multi-service senior centers offer an example of a neighborhood-based service that is supported through the Title III program. These "one stop" service centers usually provide transportation, part-time employment opportunities, recreation activities, information, and homemaker services at one central location in the neighborhood. Crime prevention is an important component of center programs in many inner city neighborhoods, because crime and the fear of crime are often major concerns of the elderly. Some centers have instituted escort services for older people cashing their social security and other retirement checks.

Title III funds have also been used for neighborhood-based programs seeking to develop a supportive environment for older people through a range of services operated on a voluntary basis by neighborhood residents. This program makes use of trained community organizers who coordinate the work of neighborhood volunteers. The volunteers, in turn, provide transportation, home care, and referral services for their elderly neighbors.

A recent study of the Title III program by Westat, Inc. indicates that the Area Agencies have generally had a positive impact on the delivery of services for the elderly.[8] The Westat study has found that the agencies often produce a level of effectiveness in services for the elderly well beyond that for other social service programs. The agencies' emphasis on transportation, a key unmet need of the elderly, in large part explains the effectiveness of the Title III program.

Community Anti-Crime Program

The Justice Department's Law Enforcement Assistance Administration, operating under legislation originally enacted in 1968, funds programs supposedly designed to strengthen state and local criminal justice systems.[9] LEAA has been criticized for ignoring neighborhood strategies for dealing with crime. This concern led to the establishment in 1976 of the Community Anti-Crime Program administered by LEAA. The program provides funding directly to neighborhood organizations to develop and operate local crime prevention projects. It represents the first effort by LEAA to channel funds directly to community organizations, bypassing state and local governments.

Under this new, neighborhood-based program, LEAA has contracted with the National Center for Urban Ethnic Affairs and the Center for Community Change to provide technical assistance to grantees. It has also contracted with the Texas Crime Prevention Institute to provide unsuccessful applicants technical assistance in developing and implementing local crime control projects. The goals of the program are:

- to mobilize effective self-help organizations which can develop and conduct anti-crime programs within neighborhoods;
- to develop neighborhood anti-crime efforts that promote a greater sense of community and foster social controls over criminal behavior;
- to improve cooperation among neighborhood residents and criminal justice agencies;
- to increase involvement of criminal justice agencies in resident-sponsored neighborhood crime prevention activities, and to expand citizen influence over the criminal justice system;
- to integrate community and neighborhood based anti-crime programs with other community improvement and neighborhood revitalization programs in areas such as housing and employment.

Since 1976, the Community Anti-Crime program has awarded grants to more than 100 neighborhood-based projects. The Hartford Institute on Criminal and Social Justice, which studied the program, reported that it was too early to assess the effectiveness of these efforts since meaningful evaluation data are not yet available.[10] The Institute concluded that if the program can help strengthen community organizations, make people feel comfortable in their neighborhood environments, and foster better working relationships between the citizens and the police, then it will have made a significant contribution. The Institute cautioned, however, that it would be both unfair and unwise to hold the program accountable for actual reductions in crime rates. The Institute was also disturbed about the cutback in funding from $15 million in 1978 to $7 million in 1979. This reduction means that the program is likely to initiate no new neighborhood projects in 1979.

Title XX Social Services

Title XX is by far the most significant federal human services effort for neighborhoods, both in terms of budget and the scope of services offered under the program. It is intended to provide states with a broad framework for structuring social services systems to meet locally identified needs. The 1975 Act stipulates that the state administered programs are to achieve the following goals: financial self-support; personal self-care; protection of children and vulnerable adults from abuse, neglect, or exploitation; avoidance of inappropriate institutionalization by providing community-based services; and institutional placement and services when institutionalization is found to be in the individual's best interest. In working to achieve these goals, states use Title XX dollars to fund more than 40 separate services including day care, foster care, adoptive services, protective services, information and referral, and treatment for alcoholism and drug abuse.

While funding for Title XX was initially constrained by the $2.5 billion ceiling enacted in 1972, recent legislation has temporarily increased the ceiling to $2.9 billion.[11] If Congress does not act to extend the increase in 1979, the ceiling will revert to $2.5 billion.

In 1972, legislation which imposed the $2.5 billion limitation also established a funding formula for the states, based on each states' relative population size. Unlike other funding formulas, including those written into the Elementary and Secondary Education Act, demographic data concerning poverty and unemployment are not accounted for in the Title XX formula. Title XX funding is distributed solely on the basis of population. Prior to 1974, only 6 states were able to use the full Title XX allocation available to them under the 1972 formula. The rest of the states could not do so because they could not budget enough matching money. Over the last four years, as state expenditures for social services have risen, a growing number of states have received the maximum allocation for which they qualify. The Department of Health, Education and Welfare estimates that the national ceiling will constrain virtually all states during the next two years.[12] Many of the largest states, including New York and California, have been spending their full allocation for some time, so the ceiling has already served to the limit the operation of Title XX programs for a vast majority of potential recipients across the country. Some states, such as New York and Minnesota, that have been at their ceilings since 1972, appropriate state and local funds for social services far in excess of the 25 percent match required under the Title XX program.[13] Currently, there is no way that unexpended Title XX funds can be reallocated to states that are already at their ceilings.

Private nonprofit organizations such as the local United Funds are able to donate funds to help meet the state's 25 percent matching requirement. Such donations have been significant in states where insufficient public funds have been available. States can purchase Title XX services from these private, nonprofit donors, but this practice is limited by federal regulations.[14] Private donations must be made in cash and cannot be in the form of in-kind contributions such as rent and staff salaries.

Title XX and the agency regulations interpreting it have established an elaborate eligibility system for recipients. Key features of this system include:

- At least 50 percent of each state's federal funds must be spent on services for people receiving Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), and/or Medicaid.

- States can provide services to families with incomes of up to 115 percent of the state's median income. Families with incomes between 80 percent and 115 percent of the state's median are required to pay for the services on a sliding fee arrangement.

- Three types of services can be offered to anyone who needs them without regard to income or other eligibility criteria—protection for children and adults subject to abuse, neglect or exploitation; information and referral; and family planning.

While HEW regulations permit services to people with incomes up to 115 percent of the state's median, certain states have chosen to set lower income eligibility limits. Only seven states have expanded social service eligibility since Title XX was first implemented.[15] Sixteen states have made mixed adjustments in standards, tightening some and relaxing others, while 20 states have tightened access to services by requiring lower incomes to qualify.

Title XX mandates that the states conduct an elaborate planning process culminating in the preparation of a Comprehensive Annual Services Program (CASP). The plan is intended to provide a blueprint of each state's annual social service programs, describing which services will be provided, how they will be delivered, and who will receive them.

Some citizen participation is built into the process by the requirement that the plan be subject to public review and comment before it can take effect. HEW regulations state that:

> The purpose of the public review process is to enable the residents of each state to participate meaningfully in the decision making process with respect to the state service plan. The public review process is intended to assure that each state has provided opportunity for prior public participation of Title XX clients, Title XX advisory groups and public and private organizations, public officials and the general public in needs assessment, identification of priorities and allocation of resources throughout the development of the plan.[16]

The architects of Title XX laid great stess on citizen participation, which they viewed as a means of holding states accountable to the citizens they were supposed to serve. This accountability was to serve at least in part as a substitute, for state accountability to the federal government which characterized the Social Security Act legislation that preceded Title XX.

An analysis of the first three years of the program by the Urban Institute indicated that while the 1975 Act has stimulated increased public participation in social services planning, it has not yet served to make state and local welfare agencies more accountable to recipients and citizens groups, at least not in any measurable way.[17] Indeed, The Urban Institute study, along with a similar review undertaken by the National Governors Conference, indicates that the $2.5 billion ceiling (increased to $2.9 billion for fiscal 1979) has seriously impeded the citizen participation process in many states.[18] Often citizens groups come into the planning process expecting that increased funding will be available for social services, but learn instead that no new money can be provided or that cuts in current funding will have to be made. The Governors Conference study offered a case example of a county in which the experience with Title XX planning was described as "close to traumatic" when county officials brought a number of citizen groups together. Naturally the groups were interested in more money for their own programs.[19] County officials judged that the time and effort needed to lower expectations about the Title XX process made citizen participation counterproductive. In subsequent years, the Governors Conference study noted, the county has taken only the most minimum steps necessary to comply with state planning requirements, sidestepping active efforts to involve the public.

State budgetary processes have also constrained citizen participation. Often, the major decisions affecting the allocation of social services resources are made while state budgets are being developed, a process that generally occurs months before the comprehensive state plan required by Title XX is issued. In 13 states, the Urban Institute found that state budgets control social service decision making almost completely.[20] In those states, citizen groups must bypass involvement in what they view as a "pro-forma" planning process and concentrate instead on lobbying administrative and legislative officials who have budgetary responsibilities for social services. In New York State, for example, the Urban Institute reported that the legislative budgets for social services have been the object of considerable controversy and public attention while the public hearings on the state comprehensive plan have gone virtually unattended.[21]

Despite the limitations of the Title XX citizen participation process, citizen groups, particularly those at the neighborhood and community level, are becoming involved in the Title XX program as direct service providers. The next section of this report will look at the nature of that involvement as part of a broader examination of the delivery of human services on the neighborhood level.

Neighborhood Patterns In The Delivery of Human Services

During the early years of the twentieth century, when newly arrived European immigrants looked beyond their friends, neighbors, and family members for help in adjusting to the new urban environment in which they found themselves, they often turned to two local institutions for assistance—the settlement house and the ward unit of the city's political machine. In many respects, these early neighborhood human service agencies operated as extensions of the natural social networks to which the immigrants belonged.

Organized human services in the United states were initially delivered by local agencies which had strong links to the communities in which they were located. But, over the last 80 years, as the organization of urban communities has become more complex and as governments at all levels have come to play a more important role in the funding and delivery of human services, the links that tie service delivery organization into the life of the community have been greatly weakened. Today, services are often delivered by highly structured social service agencies. Frequently, the programs operated by these agencies seem to be parachuted into the neighborhoods, since little or no effort is made to connect the programs to the informal support systems that already exist in the community.

In its examination of neighborhood service delivery patterns, the Commission has come across countless examples of these parachuted programs, but it also found that many useful and necessary services are being provided by local organizations with strong community ties such as neighborhood associations, churches, fraternal groups, and social clubs. In some areas, moreover, effective efforts are being made to link professional services to these locally-based programs and to the informal neighborhood helping networks that operate spontaneously in so many communities. The

Commission has also found that while hundreds of individual public and private agencies dispense social services in all large cities, many urban neighborhoods, particularly those that are the most severely distressed, receive inadequate services or lack certain basic services all together. The pattern of neighborhood services is exemplified in the following sections, a series of case studies of the service systems that operate at the neighborhood level in four large American cities.[22]

Case Studies

Jeff-Vander-Lou (St. Louis)

This inner-city neighborhood in St. Louis takes its name from two streets that serve as geographical boundaries for the area—Jefferson Street and Vandeventer Avenue. The typical family income for the area's 15,000 residents falls between $9,000 and $13,000 a year. The racial composition of the area is undergoing some change, with a gradual migration into the predominantly black community. In 1970, the neighborhood was 81.5 percent black; by 1975, that figure had dropped to 77 percent. The area is in transition commercially as well as residentially. Its business district has undergone a long period of decline with heavy disinvestment.

The neighborhood is served by the Jeff-Vander-Lou Corporation, a 12-year old community organization originally established to deal with neighborhood housing problems. The JVL Housing Corporation is currently renovating 98 rental housing units for families and will soon begin construction of a 100 unit project for the elderly. The organization also works to meet needs for support services in areas like employment counseling and day care.

The Jeff-Vander-Lou Corporation operates under the direction of a board elected by community residents. Area residents discuss priorities and act on pending issues at a monthly meeting.

The Jeff-Vander-Lou Corporation directly supplies the following services:

- a senior citizens program providing meals, transportation, information and referral, nutrition education, and recreation for elderly neighborhood residents;

- a child care program for 64 youngsters funded through Title XX, with food supplied through the U.S. Department of Agriculture's food and nutrition programs;

- youth training with a summer program that provides training for students in journalism, video-radio production, bookkeeping, sales, marketing, and graphic arts;

- human services program information distributed through a neighborhood newspaper, the Jeff-Vander-Lou News.

In addition to those services, many churches in the area offer child care services and meals for the elderly. Health care is provided by the community health center funded by the State of Missouri and by the locally-financed city hospital.

Washington Heights (St. Louis)

This second St. Louis neighborhood, located in the city's Westend, is also predominantly black. Its median family income is in the $4,000 to $5,999 range, considerably below that of the Jeff-Vander-Lou area. Fifteen percent of the residents in Washington Heights are senior citizens and 45 percent are under the age of 19. Over the last three years, the population in the area has declined sharply as the city moved ahead with a redevelopment plan. The plan calls for a combination of demolition and renovation, with the renovated units attracting families with higher incomes than those currently living in the area.

Community organization services are provided by the Washington Heights Neighbors (WHN), a community group organized in 1962 to combat the neighborhood deterioration due to private disinvestment and rapid residential turnover. Over the last sixteen years, WHN has been involved in a wide range of activities designed to maintain and stabilize the neighborhood. Members of the group are organized into block units, which are repsonsible for overseeing neighborhood improvement activities on individual blocks. WHN has provided child care assistance, organized a "block watchers" program to assist in local crime prevention, and helped relocate residents displaced by condemnation and demolition. Washington Heights Neighbors' most important function has been to serve as an advocate for area residents.

Few if any organized human services are available in Washington Heights. There are nearly 400 children under the age of 5 in the area, yet there are no day care centers. No services are provided for senior citizens. One health facility, the Luke Westend People's Clinic, is located in the area, but it is only open four nights a week. Washington Heights Neighbors, working with the Washington University School of Architecture, developed a proposal for a multi-purpose neighborhood service center to provide day care, meals-on-wheels for senior citizens, counseling, and information and referral. The neighborhood groups had hoped to obtain Community Development Block Grant funding the project, but it was not approved by the St. Louis city government, in part because the city maintained that the project was in conflict with redevelopment plans for the area.

Woodlawn (Chicago)

The Woodlawn area, with a population of 36,000, is located six miles south of the Chicago loop. The predominantly black community has experienced a sharp population decline since 1960 and is the site of substantial abandoned and dilapidated housing. The mean family income for Woodlawn residents is $5,462, slightly more than half the mean income for the population of Chicago as a whole. Nearly 30 percent of area families receive public assistance, 41 percent of the population is less than 20 years old and 6.7 percent is over 65.

The Woodlawn Organization (TWO) was first organized in 1960 by the Greater Woodlawn Pastors Alliance, with assistance from Saul Alinsky. TWO's membership is drawn from over 100 block clubs and other local institutions, primarily church groups. Initially, the organization's focus was on advocacy and social action. In recent years, TWO has become more directly involved in community development and human service programs. The organization's overall purpose is the "physical, social and economic renaissance" of the Woodlawn area.

TWO directly provides the following services:

- day care for 100 children of working mothers or mothers enrolled in training programs, financed by state and Title XX funds;
- companion services primarily for the elderly, including escort and homemakers services, funded under CETA;
- job development and training in such areas as diesel mechanics, offset printing, accounting and secretarial skills, funded through CETA;

- part-time employment for 65 senior citizens as cooks for the day care program, copy machine operators, and secretaries;

- crime prevention programs, funded through LEAA, aimed at improving relations between residents and law enforcement officers, aiding victims of crime, and mobilizing youth to combat juvenile delinquency.

- In addition, area churches operate child day care programs; the Woodlawn Hospital and the Woodlawn Neighborhood Health Center provide health care; the Chicago Department of Public Aid offers a limited amount of homemaker services; the YMCA and the Boys Club provide recreational activities and the city-sponsored Urban Progress Center provides federally-funded programs for senior citizens.

West Town (Chicago)
This predominantly Puerto Rican neighborhood is located on Chicago's Northwest Side. The exact population of the area is difficult to determine due to a recent influx of undocumented workers, primarily from Mexico. Puerto Ricans comprise 85% to 95 % of the population; however, a few elderly residential Polish and Ukranian background have remained in the area. Community agencies report that there has been tension between the elderly residents and young members of the Latino community. Unemployment in West Town is high. The dropout rate in the schools is 71%. Forty-two percent of the housing in the area has been demolished in the last eight years.

West Town's community organization, Centro Cultural Ruiz Bevis, identifies the neighborhood's primary problems as high unemployment, an inadequate educational system that the organization blames in large part on the language barrier, and inadequate housing and the related problem of arson in dilapidated and abandoned buildings. The neighborhood organization has concentrated on youth services and adult education. Many of its programs are designed to create a positive self-image for local residents, in hope of increasing their self-reliance.

Services available in the West Town area include:

- several day care centers, one of which is bilingual;

- limited homemaker services offered by the University of Illinois' cooperative extension service, in which women are taught home economic skills;

- a newly established city health clinic, supplemented by medical services provided by "store front" doctors, many of whom are Cuban refugees;

- job training provided through the Urban Progress Center;

- senior citizens services provided by local churches and by the Polish and Ukranian communities.

Hough (Cleveland)
The Hough neighborhood, located on Cleveland's east side, shares many of the economic and social characteristics of Chicago's Woodlawn area. Forty percent of Hough's predominantly black population consists of families with incomes below the poverty level. The unemployment rate for men over the age of 16 is 12.5 percent; the rate for women over 16 is 18 percent. The area has suffered a sharp drop with certain census tracks showing a population decline of 25 percent to 48 percent in the last ten years.

Community organization efforts, largely focused on economic development, have been directed by the Hough Area Development Corporation, a neighborhood-based organization formed in 1967.

The Development Corporation, which works to establish locally owned and operated businesses, has left the provision of social services to another community organization, the Hough Multipurpose Center. This facility, owned by the City of Cleveland, houses seven social service agencies and is operated and controlled by area residents working in conjunction with the various city agencies. Services available at the Center include:

- environmental health and alcohol rehabilitation services provided by the City Health Department;
- day care for children and social adjustment activities for youth provided by a private nonprofit agency, the Bell Community Center;
- meals-on-wheels and recreation for senior citizens;
- recreation for young people through the Addison YWCA and the Lake Erie Girl Scout Council;
- information and referral dealing with social services, citizen participation, health, housing, employment, welfare, and job training.

Detroit Shoreway (Cleveland)

This predominantly white ethnic neighborhood is located on Cleveland's Westside. The median income for the 6,000 residents of Detroit Shoreway is about $8,500, with 40 percent of the families earning between $5,000 and $10,000 a year, and 20 percent with incomes under $5,000. Slightly less than 30 percent of the residents over the age of 25 have completed high school.

Community organization services are provided by the Detroit Shoreway Community Development Corporation, which views itself as a catalyst for maintaining and redeveloping the area. The group's goals is to halt the deterioration of the area's housing stock. The major problems identified by area residents include high unemployment, a decaying business district, and inadequate housing, health services, and police protection. Only limited human services are available in the Detroit Shoreway neighborhood. An ecumenical ministry provides a comprehensive information and referral service and directly delivers certain crisis services. The few Headstart and day care programs in the neighborhood are run by local churches. Limited health services came from two hospitals and a community mental health center. The City of Cleveland offers some homemaker services and employment placement.

Southeast Baltimore

Southeast Baltimore is a community composed of ten residential neighborhoods with a combined population of 94,000. In 1977, the median individual income in the largely white area was $8,176, with 18 percent of the families earning less than $4,000 annually. Slightly over 26 percent of area families derived their income primarily from social security and 9.5 percent were on public assistance. Twenty percent of the population was over the age of 60 and 41 percent under 20.

Community organization services in Southeast Baltimore are provided by the Southeast Community Organization (SECO), a neighborhood-based advocacy group that presses other organizations and agencies to serve the community more adequately. SECO places a strong emphasis on citizen participation, with local residents involved in task forces that identify needs and develop alternative approaches to meeting them. The organization's crime prevention program is a good example of how this works. In 1977, SECO established a crime task force to develop an application for funding under LEAA's new Community Anti-Crime Program. Program priorities established by the task force included unemployment, drug abuse, prostitution, and the elderly's fear of crime. The SECO anti-crime project, funded by LEAA, currently provides a staff of community organizers who work with area residents on developing neighborhood "crime watch" programs and other self-help activities. The responsibility for implementing these anti-crime efforts rests with neighborhood residents themselves.

In addition to the LEAA-funded program, SECO provides a variety of other services including youth counseling and recreation for the elderly. Day care programs are operated by the Salvation Army and other private, nonprofit community agencies, but most child care is handled informally by the extended family. Area churches are involved in human services through their family counseling programs.

Services are also provided in Southeast Baltimore by a unique group of area residents known as "natural helpers." These people, working out of their homes, offer highly effective information and referral services for their neighbors. The natural helpers network spans ethnic boundaries in the area; helpers in specific ethnic sub-neighborhoods are sources of information for residents of other sub-neighborhoods about services available throughout the Southeast Baltimore community. SECO has assisted this network of helpers with briefing sessions on professional community service resources on which helpers can rely. SECO has also sponsored a "hot line" that puts residents with problems in touch with the helpers.

East Baltimore

The East Baltimore community of 183,000 is comprised of a series of neighborhoods that differ sharply in terms of racial and economic composition. The area is predominantly low income black residents, but includes some middle class and upper middle class neighborhoods near The John Hopkins University campus. Fifty percent of the families in East Baltimore have incomes below $8,000 a year. Slightly less than half the the heads of households are unemployed and three quarters of the housing in the area is substandard. Other major problems facing the area include poor sanitation, inadequate mental health services for low income families, high youth unemployment, and insufficient food and nutrition services.

The community-based East Baltimore Community Corporation has been particularly active in the area of health. The corporation is governed by a Board of Directors composed of representatives of the community and Johns Hopkins Hospital. It operates a community health center, a dental clinic, a drug abuse center, and a youth services center. In addition, these city centers provide day care, family counseling, and recreation services. Area churches provide food programs and recreation for the elderly. One of the high schools in the area operates day care programs for the children of women who are students at the school.

An Evaluation of Neighborhood Services

Successes

Despite the serious problems facing urban neighborhoods, the community groups surveyed had notable successes in their own programs and reported similar successes in the programs operated by other community agencies. Groups concerned with senior citizens services, for example, generally felt that these programs had been effective if and because they offered transportation services.

The Hough Area Development Coporation reported that the Hough Multipurpose Center, which brought together seven separate social service agencies in one central facility, provided a service approach that was well integrated and designed to meet the multiple service needs of area residents.

The East Baltimore Community Corporation cited its comprehensive medical plan as a major program success. The Plan, which offered comprehensive medical care to over 10,000 community residents was unique because it was based on a partnership between community residents and a major medical institution—Johns Hopkins Hospital.

SECO and Jeff-Vander-Lou had developed effective information and referral systems and partnerships between area residents and human services professionals. Jeff-Vander-Lou's community newspaper provided a listing of community agency phone numbers, and reports of the problems encountered by local residents and the ways in which they dealt with these problems. Jeff-Vander-Lou also emphasized the benefits of its system of community teams, in which a local resident works with a human services professional. This team approach helps gain the confidence of citizens receiving services because they are dealing with someone likely to share their needs and sensitivities. SECO's natural helper network seems to be particularly effective in linking informal neighborhood self-help efforts with professional social service delivery systems.

Problems

a. Integration.

The organizations surveyed were all strongly concerned about the need for improved integration of the various services available in their communities. The Woodlawn Organizations made the point that service programs are often not conceived and delivered with the "whole" human being in mind; the various programs operating in the community often do not mesh well with each other. Elderly programs, while generally considered successful in Woodlawn, nevertheless are a case in point. Lack of outpatient care available under Medicare, and the lack of discounted prices on prescription drugs, tends to offset other benefits provided under the health, welfare, and community services available to the elderly.

Jeff-Vander-Lou expressed concern about the lack of a total package of services for female heads of households. Where services do exist, they are often ineffective because of a failure to link them to other services. A typical example is employment services for women, but no child care services.

b. Adequacy of Services

Several community groups reported that the level of public services provided in their neighborhoods is wholly inadequate. Washington Heights Neighbors reported that services have been cut back in its area and a neighborhood welfare office has been closed. This action by city government restricts the access of area residents to social services because adequate transportation is available to get residents to welfare facilities located outside of the neighborhood. The St. Louis group maintained that the city is unwilling to provide adequate services for current residents because it hopes to replace them with higher income families after redevelopment of the area.

The Woodlawn Organization reported that environmental sanitation is virtually nonexistent in its area. Garbage-strewn streets in Woodlawn and abandoned, dilapidated buildings make it difficult for people to feel pride in their neighborhoods. Deterioration invites vandalism and littering by area youth.

c. Eligibility requirements and program standards.
Inconsistent, contradictory, and overly rigid eligibility requirements and program standards for the various federal, state, and local service programs were also cited as a major problem of the organizations.

Jeff-Vander-Lou pointed to the eligibility problem of Title XX day care, in which wage earners struggling to work and provide for their families find that a small increase in income can put them over the income eligibility limit, requiring the payment of a large weekly fee for child care. As a result, children may be taken out of day care just at the point where their families most need the services. The St. Louis organization also commented on the inconsistencies between federal and state standards in the same program area. With regard to day care, for example, the acceptable teacher-pupil ratio for a federally funded program is 1 to 10, while the same ratio for a state funded program 1 to 5.

d. Funding channels.
The organizations surveyed were in general agreement that the federal system of reimbursement imposes a severe hardship on neighborhood organizations that operate direct service programs. Jeff-Vander-Lou has had to borrow money to run the food and nutrition program of its day care center. The U.S. Department of Agriculture reimburses the organizations to cover the principal on such loan, but not the interest. The Hough Area Development Corporation noted that channeling federal human service funds through layers of state and local governments limits the dollars available to assist people at the neighborhood level, since each layer skims off some of the federal aid to cover administrative costs.

e. Attitudes of human services personnel.
The neighborhood organizations expressed virtually unanimous concern about the need for human services personnel to deal with local residents in a more sensitive manner. The Woodlawn Organization reported that area residents are reluctant to use the services of certain community agencies because the agencies had the reputation of dealing with people in an undignified and discourteous manner. The Hough Area Development Corporation advanced the same complaint, adding the problem is particularly severe at the local employment offices, where staff members discourage young people from applying for jobs by ridiculing their job skill levels. Centro Cultural Ruiz Belvis stated that the government agencies are viewed as unsympathetic to the Latino community. The lack of health service materials in Spanish was cited as an example.

f. Citizen Participation
Several organizations commented on the inadequate level of citizen participation in the development and delivery of human services programs. Centro Cultural Ruiz Belvis reported that no adequate mechanisms are available in West Town to ensure that the concerns and priorities of the community are considered in designing and delivering services. This lack of effective citizen participation accentuates consumer and provider conflicts. Washington Heights Neighbors reported that city officials turn to neighborhood residents only after problems arise in the operation of community programs, a phenomenon described by area residents as "negative decision making."

Recommendations

a. Neighborhood-based Services.
The neighborhood organizations were in general agreement that certain services—particularly day care, services for the elderly, and information and referral—should be provided at the neighborhood level. The groups

acknowledged that other services such as job training and health treatment could be provided outside the neighborhood, provided that adequate transportation, information, and referral services are available. These latter services were viewed as the key components of any neighborhood-based human services delivery system.

b. Direct Funding.
A number of the groups called for direct funding of neighborhood organizations through federal funding channels that bypass state and local governments. Centro Cultural Ruiz Belvis observed that direct funding would permit community groups to bargain effectively for the development of more adequate service programs in their areas. The Hough Area Development Corporation commented that direct funding would enable community organizations to raise matching human service dollars from the local private sector. Jeff-Vander-Lou stated that federal support should be available on an advance funding basis to programs operated by neighborhood organizations.

c. Citizen Participation.
The organizations urged that citizen participation in federal, state, and local human services programs be strengthened. Washington Heights Neighbors recommended that cities adopt citizen participation ordinances giving commuity groups the authority to review and comment on proposals by public agencies affecting service delivery at the neighborhood level. Detroit Shoreway called for the establishment of community advisory boards to determine human services needs on a neighborhood level and to help develop responsive human services systems in each neighborhood.

d. Other Recommendations.
Certain groups stressed the need for improved monitoring and evaluation to hold officials more accountable for the adequacy of human services. Others called for provision of technical assistance to neighborhood groups wishing to become more directly involved in the process of formulating human service programs; still others urged better training for personnel in public service agencies to help them deal in a more sensitive manner with area residents.

Standards for Assessing the Adequacy of Services

Although, the views expressed in the preceding section are based on experience in only eight neighborhoods, they typify the concerns of inner city residents all across the country who want better human services for themselves and their families. Based on the information gathered through case studies and other material, the Commission concluded that the following standards should be used to judge the adequacy of human service delivery systems.[23] A subsequent section of the report will outline how a neighborhood approach to the delivery of human service can lead to the design and implementation of service systems that meet these standards.

1. Equity
All individuals and groups needing services should have access to them. Given limitations of resources, however, difficult choices must be made in allocating these resources. Equity requires that priority in resource allocation go to those most in need and least able to afford services. This means that priority in the distribution of human service funding must go to the neighborhoods, often those with substantial minority populations, that are most severely distressed.

2. Holism.
This concept applies to how the strengths and needs of an individual and his

or her family are perceived and dealt with by service delivery systems and service providers. A delivery system cannot be effective if whole individuals are viewed only in relation to separate programs. Human services should be delivered to a "whole" person rather than to someone regarded narrowly as the recipient of a single program.

3. Accountability

Accountability tests whether the services provided a community are needed and whether they are delivered appropriately and effectively. By building procedures for accountability into the system, government can assure service recipients an opportunity to make their views known and to make those views count. Citizen participation can be a tool of accountability. Citizens should have a significant role in the development of human services from the planning to the evaluation stage.

4. Accessibility

This is particularly important for those with limited mobility. If services are to be accessible, they should be conveniently located within the neighborhood or there must be transportation available to and from services for those who need it. Services should be provided at convenient times such as evenings and weekends. Finally, services should be delivered in an environment that treats citizens with courtesy and respect. Condescension and hostility create barriers to services that are just as real as logistical barriers of place and time.

5. Flexibility

Differences among people and neighborhoods should be taken into consideration in the development of human service programs. Flexibility should be incorporated into service programs so they can be adapted to the structure of individual neighborhoods. Grant service designs that do not take account of economic, social, and cultural differences among neighborhoods often disserve local communities instead of delivering services.

6. Identity

Human service programs should be designed to reinforce people's positive view of themselves. Delivery systems should preserve a sense of human scale rather than making recipients feel like cogs in an impersonal machine. Building on the natural helping structures already in place in many neighborhoods can help assure a sense of human scale in service programs.

7. Empathy

Not only should service agency personnel be able to identify with the aspirations and problems of service recipients, but the human services system itself should be constructed to promote empathy. Linking informal helping networks to professional human service agencies can assure an important degree of sympathy.

Developing a Neighborhood Approach to the Delivery of Human Services

Neighborhoods serve as important mediating structures between individuals in their private lives and the larger institutions of public life. Neighborhoods are the setting within which human scale organizations operate—the churches, schools, civic associations, and small businesses that serve to bring the individual into the social fabric of the community. By using the mediating structure of the neighborhood and its local institutions as channels for human services, they can be organized and delivered in ways that more adequately meet the needs of individuals. A neighborhood approach to human services can enable people to draw on the underlying strengths of their communities for support. At the same time, this approach can provide an opportunity for residents to contribute their own strengths to the community by participating in the development of services that meet locally identified needs.

The following sections examine key issues in the organization of neighborhood human services systems.

Natural Helping Networks

People in need most often turn to relatives, neighbors, and friends for support and assistance. There is strong evidence to indicate that the social support provided by these informal helping networks acts as a buffer in times of crisis, making it possible for people to cope and adapt to change. These natural networks, which are key links between the individuals and their social environment, are the informal counterparts to organized social services and carry the largest part of the service load in many areas.

The University of Southern California Public Afffairs Center has documented the role that the helping networks have played in ethnic communities in Baltimore and Milwaukee.[24] The Center's Neighborhood and Family Services Project has examined the work done by lay leaders and helpers in both cities who are often long-time residents of the communities in which they live. These local leaders serve as neighborhood advocates and their advice is frequently sought by residents who prefer to deal with them rather than to seek professional assistance. The helpers accept the role they are called upon to play, but recognize the value of the professional human service resources in dealing with situations outside their own areas of competence.

The Baltimore and Milwaukee experiences indicate that the natural networks can deal effectively on the neighborhood level with problems of fragmentation, with the lack of accessiblity, and with the lack of accountability.

The following instances are typical:

- An elderly man in poor health was caring for his invalid wife at home. He would not allow her to be sent to a nursing home, so he began selling the couples' household belongings in order to afford nursing care for his wife at home. After she died, city officials wanted to remove him to a nursing home, since he required too much assistance to live in his own home. A call on a neighborhood "hotline" made a community helper aware of the problem. She contacted the man's neighbors and mobilized community helpers to come to his aid. The man is still living in his own home, with neighbors providing the necessary grocery shopping, cooking, cleaning, and home maintenance. Professional services provide a supplement to this community help.

- One day a dozen elderly neighborhood residents frantically came to the front door of a community helper known for her advocacy skills. They were very concerned because their social security checks had not arrived that morning. They pleaded with the neighborhood helper to "call somebody up and do something." The helper, herself 65 years old and dependent on her social security check, was also nervous but hid her anxiety from the group. When she called the local post office to complain, she was told that the mailman had left early in the morning with the checks. It was already 2:00 P.M. so she pressed the Post Office to track down the lost mailman. A short while later, the mailman arrived, after having been found in a local bar, to meet an angry group of social security recipients. For him, it was an experience in accountability that he would not soon forget.

The neighborhood networks are effective when they work in tandem with professionals. Neighborhood helping networks can cope in situations where professionals by themselves, might be unconcerned or unsuccessful. An example of such coordination comes from San Francisco, where a variation of the Baltimore helping networks has been developed, linking informal neighborhood arrangements with professional community service agencies to resolve disputes through a Community Board Program.[25] Neighborhood residents have the opportunity and the collective responsibility for dealing with disputes within the community prior to formal action by local criminal justice agencies. Boards composed of community volunteers serve as mediators and arbitrators in cases involving domestic quarrels, petty thefts, and certain victimless offenses including prostitution and public intoxication. The community boards, which receive referrals from neighborhood residents, school officials, and the police, rely on peer and neighborhood pressure to resolve disputes and to encourage voluntary compliance with this recommendation. The boards are part of a private, non-profit organization which has informal ties to the city's criminal justice system, yet operates independently of that system. The San Francisco program has built on the natural networks that already exist in the community; it has become a mechanism for integrating those networks with the institutionalized service agencies that also operate in the community.

Information provided by the Neighborhood and Family Services Project indicates that professionals in most communities are generally unaware of the role played by the natural networks and do not utilize or interact with them in a significant way. For their part, the natural helpers are often unaware of their counterparts in other neighborhoods and of the contribution that the helping network, as a whole, can play in the delivery of human services. Improved linkages among natural helpers and between the helpers and human services professionals can assist in overcoming the fragmentation of services at the neighborhood level and can render those services more accountable and accessible. Stronger linkages, moreover, enhance a neighborhood's self-help capacity.

Services Integration

Tying the complex of service agencies that operate in a given community into an integrated system and linking that system to the natural networks is a process that can be initiated and sustained by multipurpose neighborhood organizations.[26] These organizations are in a strategic position to start the process of integration because they take a broad view of the neighborhood and its overall needs.

Neighborhood organizations can make an effort to achieve this integration by engaging in a planned process to:

- define the area to be served and analyze its socio-economic conditions;
- assess the current level of available services;
- determine where residents currently obtain services and to inventory their unmet needs;
- survey residents' preferences regarding the organization and operation of new or expanded services;
- determine the nature and level of informal support activities provided by local organizations such as churches, block clubs, and social groups.

The next step in the process is determining the linkage points for the various services that exist in the area and what resources are available to establish new services or expand existing ones to fill unmet needs. Neighborhood organizations must also determine how access to various services is conditioned by factors such as public transportation and by structural barriers such as eligibility requirements, application procedures, and hours of service delivery.

A neighborhood organization will generally find that one of two alternative models for service integration will meet its needs most effectively.

It might opt for a *multi-service center* in which a variety of different services are physically located at one central facility within the neighborhood. Services provided at these centers, such as the one operating in Cleveland's Hough area, generally include day care, services for the elderly, youth services, training and employment, information and referral, transportation, and advocacy. The multi-service centers attempt to achieve a holistic approach by coordinating core services such as outreach, intake, diagnosis, referral, and follow-up and by requiring that various service agencies operating out of the center have a working knowledge of the other center programs. A multi-service center should be organized so that residents of an area have a meaningful role not only in planning and evaluating programs, but in the actual operation of the centers. Accordingly, the center's board of directors should have substantial community representation.

A neighborhood organization may find that the *network model* meets its needs better than a multi-service center. In this model, public and private agencies provide services to neighborhood residents at a number of locations inside and outside of the neighborhood, with linkages maintained primarily through information, referral, and transportation services. A typical services network in a given neighborhood would include a local community center which may have operated formerly as a settlement house, a mini-city hall which houses certain public health and welfare agencies, and a community hot line organized and operated by volunteers in a ecumenical ministry center. Other linkage points for special target groups such as senior citizens, handicapped people, and ex-offenders would be provided through local centers designed to serve these specific groups.

Components of a neighborhood services network would include:

- a community mental health center which provides referral, diagnosis, counseling, and guidance on an out-patient basis;
- a senior citizen center which provides meals, recreation services, transportation, volunteer and paid employment opportunities, and referrals to other services needed by the elderly;
- a neighborhood health clinic offering preventive health care services, family planning, nutrition services, dental care, minor surgery, and home health care;
- an ex-offenders center providing assistance through a halfway house located in the neighborhood;
- a community center providing day care and child development programs, youth recreation, and information and referral services.

Through a strong information and referral system, linkages could be maintained with services provided outside of the neighborhood:

- a job training center that provides employment skills in such areas as clerical work, auto mechanics, offset printing, and accounting;
- an alcohol and drug abuse coordinating office which develops employment opportunities for individuals completing rehabilitation;
- a vocational rehabilitation office which assists handicapped people in obtaining work or returning to their previous jobs;
- a family and children's service which provides family counseling, services for neglected or abused children, and adoption and foster home placement.

The network model provides a process for linking a broad range of public and private agencies that may receive funding from a variety of sources. Neighborhood involvement in the operation of the network would take the form of citizen participation in planning, monitoring, and evaluating the individual programs and the total system. This process could help determine which services overlap or duplicate one another and where gaps need to be filled with new or expanded services.

Citizen Participation

Citizen participation requires a process that has not been widely developed in the organization of human services programs on the community and neighborhood level. In the middle and late 1960's, national efforts were made to establish citizen participation structures through the Community Action and Model Cities programs. These new structures, created by federal mandate, were designed to give residents of low income communities organizational tools they could use in dealing with the comprehensive physical, economic, and social needs of their neighborhoods. Today, only vestiges of these structures remain in programs operated by the Community Services Administration and the Department of Housing and Urban Development.

With the exception of Title XX social services, the citizen participation components of HEW human services programs have taken the form of very general requirements for the establishment of state and local advisory committees with ill-defined responsibilities. Few, if any, recipients generally serve as members of these committees.[27]

In 1973, HEW undertook a comprehensive study of citizen participation in human services, which culminated in a set of recommendations calling for the establishment of citizen-dominated boards to oversee federally funded welfare and social service programs on a city-wide or county-wide level.[28] These citizen participation organizations were to conduct annual reviews of programs in their areas and investigate the grievances and complaints of service recipients. The 1973 recommendations were never implemented and citizen participation in HEW programs has remained uneven, fragmented, and largely ineffective.

Enactment of Title XX in 1974 was intended to provide a new citizen participation focus for federally funded social services, but as an earlier section of this chapter indicated (III. C.3), the intention has been very incompletely achieved. The 1975 Act required states to undertake a planning process aimed at giving citizens a role in determining what services will be offered in their states and who will receive them. However, the $2.5 billion federal funding ceiling has constrained citizen participation by limiting the states' options with regard to the allocation of human services resources. Citizen participation has also been diminished, because the key decisions affecting the distribution of service funds tend to be made during the state budgetary process rather than during the federally directed social services planning process. Finally, what little citizen participation has occurred in the Title XX program has not been at the neighborhood level. Neighborhood organizations have served as providers of Title XX social services, but they generally have not been active in the county or city-wide Title XX structure. Few neighborhood organizations have been invited by state and local public welfare agencies to participate in Title XX planning or evaluation.[29]

Formal citizen participation at the neighborhood level has been particularly weak in the area of human services, in part because the legislation and regulations affecting the various federal service programs have not dealt with the issue of citizen involvement from a neighborhood perspective. Neighborhood organizations, for their part, tend to focus their concerns about citizen participation on housing and community development rather than on human services. On an informal level, neighborhood groups, such as Baltimore's Southeast Community Organization, have served as catalysts, stimulating other public and private agencies to provide services for area residents. In cities where official or quasi-official neighborhood planning councils have been established, such as the District of Columbia, citizen groups are involved in human services planning: in the case of the D.C. Advisory Neighborhood Commission, for example, they have the authority to review and comment on program proposals prepared by public health, welfare and social-service departments.

Often social service planning is not a major priority for neighborhood planning councils which tend to relate to city rather than to county or state governments.[30] Traditionally, city governments, except for those which have to carry out the administrative responsibilities of counties and states, have not been extensively involved in the operation of human services programs—at least not in those programs funded by HEW.[31]

The lack of citizen participation in the operation of publicly-funded human services programs is a major obstacle to integrated neighborhood human service systems. Citizen participation processes on the neighborhood level must be strengthened significantly if the goals of equity, holism, access, accountability and empathy are to be achieved.

Summary and Conclusion

The Commission has examined the organization and delivery of human services for a neighborhood perspective. The system of human services activities at the federal level could be more accurately characterized as a "nonsystem" with no consistent policy guiding the development of human services legislation and programming. This nonsystem is replicated in the administration and delivery of human services at the state and local levels as well.

One of the key obstacles to improved service delivery is the lack of flexibility to restructure narrowly focused, categorical federal programs. Coordination and innovation are hindered by federal requirements that establish rigid eligibility criteria, funding ceilings, and other programmatic constraints. Human service programs are fragmented, overlapping, and in some instances cost-ineffective. Often they hamper rather than help to deliver human services at the neighborhood level.

The current bureaucratic system emphasizes the planning from the top down, from Washington to the neighborhood, and generally excludes community participation. The weakness of this system is evident in the neighborhoods. Services often do not suit the needs of people or may be inaccessible due to complex eligibility requirements or the lack of adequate information, referral, or transportation.

The Commission has found wide variance in the level of human services in urban neighborhoods. In some communities, an extensive network of public and private organizations provides a full range of health, nutrition, counseling, and information services for children, families, and the elderly. In other neighborhoods, particularly those slated for redevelopment, service programs are very inadequate or virtually nonexistent. Access to services is clearly a function of factors such as age, race, and income. Low income, in particular, appears to be a common denominator of those most in need of improved services. Low income neighborhoods often have large black and Hispanic populations; minorities suffer disproportionately from inadequate and inaccessible services.

Not only should services be more equitably allocated among all neighborhoods, they should focus more clearly on the total needs of the individual. This holistic approach should be developed in a neighborhood context by bringing human service programs together in an integrated system and by linking this system to the natural helping networks that already exist in the community. Neighborhood residents and organizations should be active participants in this process; this can assure accountability and relevance—that services will be tailored and targeted to locally identified needs. Finally, services must be organized and delivered to enhance the neighborhood's capacity to revitalize itself.

Some mechanism must be developed which can insure that social services are delivered in the most effective, integrated manner. The Commission believes that the experience of the Neighborhood Housing Service (NHS) offers a model which could be readily adapted to the human service delivery system.

The Neighborhood Housing Service acts as an advocate for reinvestment in the neighborhood. The crucial roles of NHS are (1) to stimulate demand for rehabilitation and reinvestment loans among the area's homeowners, and (2) to secure the voluntary cooperation of local lending institutions to meet this demand. In the typical area undergoing disinvestment, redlining by banks quickens the decline in confidence in the neighborhood's future and thus demand for loans shrink. By working with the area homeowners, NHS begins to stimulate a demand for reinvestment by rebuilding the neighborhood's confidence in itself. At the same time, NHS works with the lending institutions to secure commitments from them that they will make money available to meet the emerging reinvestment demand.

When applied to the field of human services, the advocate or broker would serve as a link between people who need services and the agencies would provide the service. A "Neighborhood Human Service Program" could identify the people and families in the area who need services, work to eliminate the obstacles these people encounter in trying to get services, develop formal and informal mechanisms for getting services delivered, and work with the service providers on experimenting with new approaches to service delivery.

The social service advocate would function much like the NHS model. They would be stimulating demand for services by identifying people who need service, informing people of the availability of service, or referring people to the proper agency. At the same time, the service advocate works on the supply side by attempting to secure from service agencies commitments to provide their services in an integrated fashion and in new, experimental ways.

This social service advocacy ought to be provided by a neighborhood or community organization. There would be little sense in creating new agencies to perform this function. Certainly, the advocacy would require the independence that typifies a community organization. However, the purpose of this service advocacy is specific—to achieve a reorganization of the social service delivery system so that it supports neighborhoods. This goal requires that service agencies participate willingly and voluntarily.

Human Services Recommendations

A. Neighborhood Human Services Systems

The Commission recommends that the Department of Health, Education and Welfare provide direct funding on a demonstration basis to neighborhood organizations for the purpose of developing neighborhood human services systems. These neighborhood systems, modeled after the Neighborhood Housing Services projects, would serve to integrate human services activities on a local level through improved partnerships between local residents, neighborhood organizations, private service providers, and federal, state, and local governments. This demonstration effort, to be targeted to low income neighborhoods, could be organized and funded under Sections 1110 and 1115 of the Social Security Act which authorizes the Secretary of HEW to fund research projects and to waive certain statutory and administrative requirements for Social Security Act programs such as Title XX.

The Commission also recommends that following completion of this demonstration program, legislation be adopted to provide a 2 percent set-aside of Title XX funds for use in developing neighborhood human services systems. These funds would be allocated directly to neighborhood organizations by the Secretary of HEW, who would be responsible for monitoring and evaluating the neighborhood systems. No state or local match would be required under this set-aside program.

B. Neighborhood Advocates in HEW

The Commission recommends that the Department of Health, Education, and Welfare establish neighborhood advocate posts in its regional offices who would be responsible for assisting neighborhood organizations in drawing on the full range of HEW programs that can contribute to the development of neighborhood service systems. The advocates would help to funnel training, technical assistance and program funds to neighborhood organizations. By working through the Federal Regional Councils, they would also help arrange linkages with programs outside of HEW, including those in HUD, the Department of Justice, CSA and ACTION, which provide support for neighborhood-based human programs.

C. Local Matching Requirement

The Commission recommends that legislation be adopted to permit private, nonprofit service providers, including neighborhood organizations, to contribute to the local match required under Title XX on an "in-kind" basis. Currently, states must match federal Title XX dollars on a ratio of 25 percent state funding to 75 percent federal funding. Private nonprofit organizations can contribute to the state match but only on a cash basis. An "in kind" matching arrangement would enable service organizations to credit their staff and facilities costs toward the 25 percent match.

D. Title XX Funding Ceiling

The Commission recommends that legislation be enacted to raise the Title XX funding ceiling in accord with a 1978 House-passed bill which provided a three-step increase in yearly increments of $200 million, $250 million, and

$300 million. The second and third steps in this three-year program should come on top of the current $2.9 billion ceiling which should be made permanent.

E. Training and Technical Assistance
The Commission recommends that training and technical assistance funds provided under the authority of such legislation as Title XX, the Crime Control and Safe Streets Act, and the Community Mental Health Amendments should be directed to promote improved linkages between professional service providers and neighborhood helping networks. The Commission also recommends that the Title XX training program should be broadened by eliminating the restriction which allows training to be provided only for the staffs of State Title XX agencies and Title XX service providers. The elimination of this restriction would permit Title XX training funds to be used to assist neighborhood organizations in developing new human services partnerships in their communities.

F. Citizen Participation
The Commission recommends that Title XX be amended to require citizen participation in the evaluation of Title XX programs. The Commission also recommends that technical assistance should be provided to neighborhood organizations to enable them to participate more effectively in the evaluation process.

G. Minority Concerns
The Commission recommends that all levels of government should hire minority human services experts who have a commitment to and understanding of the needs of their constituents. The Commission also recommends that federal procedures should be established for ongoing consultation with minority leaders and groups for the review and monitoring of human services policies that affect minority people.

H. Services for the Elderly
The Commission recommends that the Administration on Aging give special emphasis to neighborhood-based programs such as the multi-service senior centers and the neighborhood service networks for the elderly.

I. Economic Development
The Commission recommends that priority in the allocation of economic development funds should go to those projects which include human services components (for example, a light manufacturing plant which provides day care services for its employees).

J. Law Enforcement
The Commission recommends that funding cuts for the Community Anti-Crime program should be restored.

K. Research and Demonstration
The Commission recommends that the Department of Health, Education and Welfare initiate research and demonstration projects designed to determine the neighborhood characteristics that shape service delivery systems, and the extent to which such logistical factors such as the availability of transportation impede the effective delivery of services. In designing these research and demonstration efforts. Special attention should be given to problems of minorities, the poor, and the elderly.

The Commission notes its concerns about the following issues which the constraints of time have prevented fuller consideration:

Crime
The problems of crime and fear are of major importance to this nations

neighborhoods. During recent years there has been a growing body of professional research on crime and fear, which has resulted in an abundance of diverse and conflicting opinions as to the nature and extent of these problems. It is clear, however, that both crime and fear have a significant negative impact on the people who live and work in urban neighborhoods, and are clearly linked with the destabilization of once healthy neighborhoods.

Crimes of concern to neighborhoods range from specific major (class I) crimes to misdemeanor crimes which, although of less importance to law enforcement officials, may be highly fear-producing. Research indicates that there are two major crime types which are of greatest significance at the neighborhood level. These are crimes against property, of which residential burglary is the most common, and crimes against persons, the most frequently committed of which are robbery and larceny/pursesnatch. Residential burglary is primarily an urban crime committed by non-professional opportunists or addicts/alcoholics, who take advantage of places offering easy accessibility and escape routes. Robbery and pursesnatch are also crimes of opportunity taking place primarily in areas with enough people on the street to provide a choice of targets but without enough people to provide a deterrence. Assault, if it occurs as part of a burglary or robbery, is also a crime of opportunity. However, most assaults occur as results of disputes between acquaintances: family, friends, lovers, neighbors. This type of assault is usually the outgrowth of an interpersonal conflict that has festered over a period of time.

There is another set of crimes which are of concern to neighborhoods but which are not considered serious to the law enforcement community. These are problems of the social order or nuisance crimes, and include such problems as illegally parked cars on neighborhood streets, barking or roaming dogs, loitering teenagers, public intoxication, and noisy neighbors. Often these, rather than the major crimes, are the offenses which the residents view as priority concerns. They are problems which arise as a result of the competing lifestyles and mores which often exist among the different groups of people who populate transitional urban neighborhoods. These are the problems of crime which probably have the greatest negative impact on healthy neighborhood lifestyles.

Fear is a complex phenomenon related to crime but not necessarily a reaction to actual crime. Research into fear and its causes is in its infancy. The study of victimization has evolved within the last ten years—since the establishment of the Presidents Commission on Law Enforcement and the Administration of Justice.

Victimization surveys have shown fear to be not merely a by-product of crime but dependent on other factors which may or may not be related to actual crime rates. For instance, victims of crime are not necessarily more fearful than those who have not been victimized. The elderly and women are highly afraid despite the fact that both groups are far less often victims than the young and men. Other factors related to fear include unfamiliarity with the community, the presence of strangers in a neighborhood , or problems of social order such as loitering teenagers or vandalism.

Approaches should be developed at the neighborhood level which address both major crimes and nuisance crimes as well as the problem of fear (which is often more closely related to nuisance crimes than to major crimes). The most common serious crimes of residential burglary and robbery are crimes of opportunity. Therefore neighborhood strategies should be developed which reduce opportunities for these crimes to occur. Opportunity reduction strategies to prevent burglaries include block scale cooperation to watch each others homes and the creation of volunteer street patrols. Strategies to reduce robbery opportunities include community organizing activities intended to increase residents' ability to differentiate between neighborhood residents and strangers. An education component to reduce vulnerability should be part of any opportunity reduction program.

Interpersonal disputes which culminate in violence are more difficult to address with neighborhood strategies. Possible methods to reduce the incidence of assaults resulting from interpersonal conflicts include police training to better equip the police to handle violent disputes, the development of better working relationships between police and social service agencies, and the utilization of neighborhood-based dispute settlement centers.

Studies show that it is often the nuisance crimes which cause people to be fearful and that the reduction in rates of major crimes without addressing the nuisances may have no impact on reducing fear. Therefore any strategy to reduce crime and fear must focus on these problems. Because these nuisance crimes are neighborhood problems more than they are actual crime problems, and because the criminal justice system is ill-equipped to handle these problems, they are best handled at the neighborhood level, most likely through neighborhood organizations.

The Law Enforcement Assistance Administration's Community Anti-Crime Program provides funds exclusively to neighborhood-based organizations to develop and operate crime prevention programs. In addition to the CAC program, LEAA has sponsored research into various innovative strategies which could have important implications for neighborhood stabilization. Some significant neighborhood-based strategies have been described in detail in a report prepared for the Commission by the Hartford Institute of Criminal and Social Justice, entitled "Crime and Fear in Urban Neighborhoods."

The types of efforts include: innovative strategies in which local government plays a lead role in supporting neighborhood level programs targeting on crime and fear (Seattle Community Anti-Crime Program; Baltimore Mayor's Coordinating Council on Criminal Justice); neighborhood oriented policing strategies (programs implemented in Cincinnati; Detroit; New York City; Los Angles; Hartford, Connecticut; and Santa Anna, California); provision of selected social services to young offenders, including training and employment of neighborhood youth to perform neighborhood security functions (Hartford Youth Services Project; House of Umoja in Philadelphia); supported work employment for selected ex-offenders and young persons who have had a "brush with the law" (Maverick in Hartford); development of police crisis intervention strategies (Project Outreach in Hayward, California); creation of alternative dispute settlement institutions for neighborhood problems (San Francisco Community Board Program); use of community development corporations as the vehicle for crime prevention activities (Baltimore: Southeast Community Organization and Park Heights Community Corporation; Midwood Kings Highway Development Corporation in Brooklyn); strategies designed to alter the physical environment to reduce crime opportunities (Residential Neighborhood Crime Prevention Project in Hartford); and implementation of neighborhood based programs to provide services and advocacy to victims and witnesses of crime.

In general the Commission believes there are three major strategic opportunities for addressing crime and fear at the neighborhood level. First, the pending legislation to restructure LEAA should be drafted to ensure an expanded and meaningful opportunity for the neighborhood perspective to be heard at all levels of policy making on criminal justice expenditures, including a significant increase in funding for neighborhood level crime and fear prevention programs. Second, at all levels of government (and within the private sector) efforts must be undertaken to provide ongoing technical assistance to all neighborhood level organizations attempting to develop innovative strategies to address crime and fear. Third, it is essential that local police departments reorganize their field service delivery systems to build a partnership with neighborhoods to formulate a cooperative attack on crime and fear problems of greatest concern to those who live and work in urban neighborhoods.

These approaches are described in more specific terms in the following set of recommendations:

1. LEAA reorganization legislation should be redrafted to include a much stronger role for the neighborhood perspective in program policy making and to encourage funding support for innovative neighborhood-based strategies.

    a. Clear responsibility should be placed on the Administrator of the Law Enforcement Assistance Administration to make certain that state, county and local governments use a substantial portion of their formula grants to establish or expand community and neighborhood-based programs that enable citizens to undertake initiatives designed to reduce the rate of local neighborhood crime.

    b. The composition of state planning councils, which determine how state formula grants will be used, should be revised to substantially increase the number of representatives of neighborhood and community-based organizations.

    c. The formula for allocating LEAA funds should be adjusted to give weight to crimes of major concern to neighborhoods such as arson, auto theft, prostitution and drug offenses.

2. Government at all levels should be required to provide increased technical assistance to neighborhoods to identify public safety problems, analyze priorities, and devise neighborhood level strategies to respond to major concerns.

3. Local police departments should shift from centralized operations to implementation of decentralized, neighborhood-oriented policing to deliver services on the basis of neighborhood priorities, to encourage meaningful neighborhood input to policy making through formal structures such as neighborhood advisory committees, and to develop crime and fear reduction strategies for implementation by neighborhood organizations.

4. The federal government should increase research efforts aimed at determining the relationship of the physical environment, including design considerations for housing units and businesses, to crime and fear. The Department of Housing and Urban Development should require that basic "defensible space" opportunity reduction concepts be included in the designs for construction or renovation of all public housing projects.

5. "Target hardening" efforts—taking protective measures to physically secure property such as the installation of proper door and window locks—should be accepted by the insurance industry as a means to reduce the risks of economic loss, and homeowner's insurance rate reductions should be made available as an industry practice to encourage such efforts. All federally supported housing rehabilitation efforts should be encouraged to meet established crime prevention building security standards.

6. Local governments should be encouraged to make crime reduction strategies an integral part of local efforts to attract industry and businesses back into urban neighborhoods. To the extent that unemployed or underemployed youths participate disproportionately in committing crimes, crime prevention strategies should be devised with employment components to provide jobs for this population. Experience in several cities indicates that otherwise troublesome youth can be successfully trained and employed for community services purposes as part of crime prevention strategies, including such activities as neighborhood-sponsored private security guards or as escorts for elderly citizens.

7. The crime of arson should be upgraded from class II to class I in the Unified Crime Report reporting system to reflect its critical importance to neighborhood stabilization efforts.

8. Strategies such as police crisis intervention programs, should be established at the local level to encourage cooperation between police and social service professionals. This cooperation should include the development of improved training for police officers in handling special human problems, and the creation of social service resources available to police around the clock, particularly at night when most social service agencies are closed.

9. There should be a concerted attempt at all levels of government and in the private sector to develop service and advocacy programs for crime victims, with particular attention paid to elderly victims, rape victims, battered women and abused children.

10. Local governments should be encouraged to develop relevant strategies to inform and educate the public for the purpose of allaying unreasonable fears of citizens, such as neighborhood-based rumor control centers.

11. The federal government should expand funding for implementation of neighborhood justice centers in more cities as alternative mechanisms to the police or courts for solving neighborhood conflicts.

Transportation

Transportation systems dictate who can get where and at what cost. Moreover, these systems often dictate the health of neighborhoods. In the past, large scale transportation improvements have hurt neighborhoods and discriminated against racial and ethnic minorities by bulldozing communities for freeways, literally paving the way for the exodus to the suburbs, and placing a high priority on getting middle income suburbanites to city service sector jobs. At the same time, these highway projects have spurred the growth of suburban shopping centers and hurt neighborhood commercial strips.

The Commission calls for a new neighborhood-based transportation policy that can contribute to the economic strength of neighborhoods and provide improved access to suburban jobs for urban workers. This policy should include the following components:

1. Greater attention to the needs of the transit dependents. Neighborhoods are often the home of the elderly, the physically handicapped and those unable to afford automobiles. State, federal and local programs should provide access through a variety of forms of para-transit including shared taxis, dial-a-ride, and subscription bussing to jobs and vital services. The Commission wishes to draw attention to the neighborhood-based and para-transit programs developed by the City of Knoxville, Tennessee. Knoxville has proved significant national leadership in this area.

2. Increased capital investment for transportation in neighborhood commercial areas. Improvements such as off-street parking, neighborhood mall development and revised traffic flow patterns would facilitate the attactiveness and viability of neighborhood commercial strips.

3. Transportation-related improvements such as appropriately located parking garages and improved bus service to central business districts to facilitate job creating development in downtown commercial areas.

4. Increased use of mass transit to maintain the economic viability of cities while complying with federal clean air requirements. In the absence of adequate mass transit, federal controls on motor vehicle emissions potentially threaten the economic development of many central cities.

Financing Public Education

Property tax financing of public education has worked a serious hardship on youngsters in many innercity school systems because it has tied the quality of the education these youngsters receive to the wealth of the taxing districts in which they live. In more than 25 states, parents in property-poor districts have brought actions in state courts against statewide financing systems, claiming that these systems discriminate against their children because per pupil spending in their district is substantially below that of wealthier districts in the state. The evidence clearly indicates that central city schools, together with the less affluent suburban ring systems and the smaller rural areas, have lower per pupil education expenditures than do the wealthy suburban school systems. In addition, in the larger central cities much of the per pupil expenditures are devoted to paying for higher teacher salaries. In certain states, plantiffs have also sought to demonstrate that state financing systems are inequitable because they do not adequately recognize the factor of municipal "overburden"—the extra fiscal demands placed on central cities to provide police protection, welfare benefits and other services associated with urban needs.

Legislatures in several states, including California and New Jersey, have responded to these court actions by moving to create more equitable statewide financing systems for public education. The data indicate that these state reforms are effective. Nineteen states have initiated reforms in the financing of public education. In those states, the disparities in financing have decreased significantly in nine. However, in the 31 states which have not instituted any reform, the disparities in financing have decreased in only six while actually increasing in eleven.

Litigation over the issue of property tax financing is continuing in a number of state courts. On the federal level, the U.S. Supreme Court has refused to take action against the property-based taxing systems, ruling in *San Antonio Independent School District vs. Rodriguez,* that wealth discrimination in educational expenditures does not violate the equal protection clause of the 14th amendment to the U.S. Constitution.

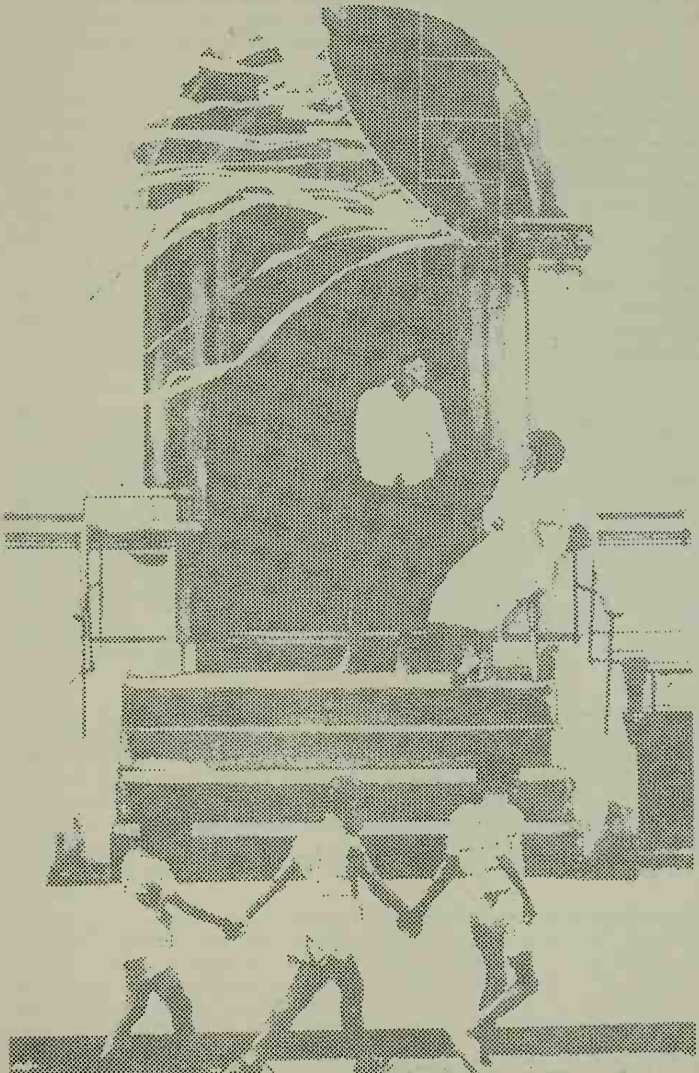
The Commission believes that neighborhood stabilization depends in large part on the educational opportunities available in the community. It believes that efforts must continue at the state and federal level to develop educational financing systems that take account of municipal overburden and are not based on wealth.

Health

Private, tax-exempt hospitals constitute a major resource in many inner-city communities that can and should be used to promote neighborhood development. The Commission believes the greater efforts should be made by private medical institutions to develop partnerships with neighborhood organizations to establish preventive health care services on a neighborhood level and provide training and employment opportunities for local residents in the health field.

The Commission also recommends greater use made of allied health professionals in the delivery of health services, provided that these allied professionals perform functions appropriate to their level of skills and training.

Compounded Problems Confronting Racial Minorities in Urban Neighborhoods



Compounded Problems Confronting Racial Minorities in Urban Neighborhoods

Families of all races pay a penalty for living in our central cities. However, of all the residents of distressed urban neighborhoods, blacks, Hispanics, and other racial minorities are the worst victims. One hundred and fifteen years after the signing of the Emancipation Proclamation, racism still oppresses the lives of Afro-Americans wherever they live. In the nearly 40 years of black migration from their rural impoverished southern roots, Afro-Americans have become the urban poor.

Hispanics in metropolitan areas experience many of the problems of discrimination and exclusion encountered by previous generations of European immigrants: they are the newest arrivals; they were poor when they arrived; they speak another language and enjoy a different culture; and they are unwanted by the majority culture. Beyond these barriers to equality, Hispanics share with blacks the attribute of color, at least in the eyes of the dominant society.

As a public body with a mandate to address urban policy as it affects low and moderate income neighborhoods in our metropolitan areas, the National Commission on Neighborhoods aligns itself with any and all expressions of concern for the plight of blacks, Hispanics and other racial minorities.

On February 29, 1968, the National Advisory Commission on Civil Disorders (The Kerner Commission) told the country, "Our nation is moving toward two societies, one black, one white—separate and unequal." Almost 11 years later on January 17, 1979, the National Urban League released its annual report on *The State of Black America - 1979.* In his introduction to this report, Urban League President Vernon E. Jordan, Jr. said: "'The State of Black America - 1979' is a most troubled one that poses a challenge to the American people as the decade of the 70's draws to a close."[1] Again, in his public remarks accompanying the release of the report, Mr. Jordan said: "It is our grim duty to inform you that the state of black america today verges on the brink of disaster. 1979 promises to be a year of crisis for America's black people."[2]

Among the serious problems the Urban League report documents, the following are most pressing: the widening income gap between black and white families; the possibility of a recession sometime in 1979; the erosion of support for the principle of affirmative action; and a growing tendency for government to pull back from basic commitments to the poor. Most certainly, of the major issues identified by the Urban League report, the problems of the income gap, a recession, and government's withdrawal from social programs have been of particular concern to this Commission.

The neighborhood movement of today is committed to supporting open and diverse neighborhoods, not to perpetuating racial segregation. Furthermore, the contemporary neighborhood movement is responding to economic and political issues which everyone who lives in a city shares—redlining, insensitive bureaucrats, suburban dominated state legislatures. While, to paraphrase Orwell, "those who live in cities are unequal, but some are more unequal than others," nonetheless, in today's environment neighborhood organizing must transcend race. The whites living in cities today either cannot move out or do not wish to move out. They will live in cities and in neighborhoods in which they will be sharing power with blacks and both will either sink or swim together. To the whites in the central cities, racial exclusivity is counterproductive.

Benjamin Hooks, Executive Director of the National Association for the Advancement of Colored People, recently said: "In this era of media propogated code words, we are concerned that 'neighborhood' not signal 'white,' while 'urban,' 'inner city,' or 'ghetto' signal black—thus effectively excluding racial minorities from 'neighborhood programs' altogether."[3] The National Commission on Neighborhoods shares Mr. Hooks' concern. Throughout our year of investigation and throughout this final report, we have focused heightened attention on the plight of low and moderate income families of all racial and ethnic groups. However, the situation of racial minorities in central city neighborhoods is compounded by the added burden of racism.

The Issue of The Racial Undercount in the U.S. Census

Discussion of the situation of racial minorities in central cities requires analysis of Census data. Unfortunately, as is now being ever more abundantly clear, blacks and other racial minorities are seriously "undercounted" by the decennial census. According to the Census Bureau's own data, an estimated 18.5% of black males between the ages of 25 and 34, and 17.7% between the ages of 35 and 44 were not counted in the 1970 Census. In fact, the Census Bureau estimates that their count of the overall black male population was 9.9% lower than the actual number. For black women, the undercount was 5.5%.

As the time for the 1980 Census approaches, concern about the undercount problem is growing among minority leaders and mayors of cities with substantial minority populations. The accuracy of the count is vital to these two groups. Many of the formulae upon which federal funds are allocated are tied to Census data—the size of a city's population, the number of poverty families within an area, or the age of the housing stock. Revenue-sharing, CETA employment, and Community Development Block Grant funds all are allocated according to formulae which use Census data. The undercount, therefore, can cause a city to lose millions of dollars to which it is actually entitled. The City of Atlanta estimates that it has lost approximately $11 million in CETA allocations since 1973 because of the Census undercount.

The Census undercount affects the size of allocations which a city will receive to deliver services. However, the undercount does not affect the actual size of the population of a city which needs these services. Whether counted by the Census or not, these people still need and consume services. Without an accurate count of the population, we have no real sense of how badly underfunded these programs are. The Census undercount understates the seriousness of the annual "guns versus butter" budget debates.

The undercount in the Census has extremely important political ramifications for minority representation. A seriously deficient enumeration of the racial minorities would deny to them the political representation to which they are entitled under the one man-one vote rule. Minority groups, and central cities, stand to lose unfairly legislative seats if the 1970 undercount problems are not solved.

We bring up the issue of the Census undercount at this point for another reason. Much of the discussion in this chapter relies upon data taken from recent census publications. While this data clearly shows the added problems confronting racial minorities in the central cities, the problems undoubtedly are starker, more sweeping, and more compelling than the data documents. We must caution the reader to bear in mind that the problems discussed here might be far worse.

Residency

While most Americans live in metropolitan areas, over seven of every ten blacks and eight of every ten Hispanics can be found in metropolitan areas. (See Table 1.) However, while whites and racial minorities might share a common metropolitan residence, they most definitey do not live within the same areas of the metropolitan region. As the data in Table 2 demonstrates, the racial minorities are heavily concentrated in metropolitan central cities: 74.5% of blacks and 58.8% of the Hispanics are living in central cities. On the other hand, 63.6% of the metropolitan area whites live outside the central cities. 49.19% of metropolitan blacks and 37.1% of metropolitan Hispanics are concentrated in the central cities of the largest metropolitan areas; namely, in the oldest, biggest, and most vulnerable of the American cities.

TABLE 1. Distribution of Type of Residence for Whites, Blacks and Hispanics (Total) 1977

		Type of Residence	
Race	Total	Metropolitan Area	Non-Metropolitan Area
White	100%	66.3%	37.7%
Black	100%	73.7	26.3
Hispanic	100%	84.2	15.8

(Source: Bureau of the Census. *Social and Economic Characteristics Of the Metropolitan and Non-Metropolitan Population: 1977 and 1970.* Special Studies, P-23, No. 75, Table D., p. 4.)

TABLE 2. Distribution of Metropolitan Area Residents by Size of Metropolitan Area, by Central City and Non-Central City, by Whites, Blacks, and Hispanics

		Metro over 1,000,000		Metro under 1,000,000		Total	
Race	Total	City	Non City	City	Non City	City	Non City
White	100%	17.6%	38.1%	18.8%	25.5%	36.4%	63.6%
Black	100	49.1	16.4	25.4	9.1	74.5	25.5
Hispanic	100	37.1	28.3	21.7	12.9	58.8	41.2

(Source: U.S. Census, "Characteristics," Table F., p. 6.)

However, Blacks and Hispanics are not concentrated in central cities to exactly the same extent. The percentage of blacks living in the largest central cities is far higher than is the rate for Hispanics –49.1% and 37.1%, respectively. A significantly higher percentage of Hispanics than blacks (41.2% as compared to 25.5%) lived in the non-central city areas of the metropolitan areas. In fact, 23.9% of *all* Hispanics live in the non-central city sections of the largest metropolitan areas. This residency pattern of Hispanics undoubtedly is accounted for by the distribution of Mexican-Americans in the Southwest and West. This fact urges caution in over-generalizing about racial minorities in America.

The Economic Status of Racial Minorities

An examination of data recently released by the U.S. Census Bureau reveals that racial minorities suffer the penalty of living in central cities more intently than whites. One must note that, in comparison with their suburban counterparts, central city whites are poorer, have somewhat higher unemployment rates, and live in a significantly greater number of families with a female head of household. There is an urban crisis which is shared by blacks, Hispanics, and whites living in the central cities. Nonetheless, as the examination of the following data will show, this Commission would be remiss if we failed to comment forthrightly on the special burden borne by racial minorities.

Most of this discussion will borrow from the U.S. Census's "Social and Economic Characteristics of the Metropolitan and Non-metropolitan Population: 1977 and 1970," and from the National Urban League's *The State of Black America - 1979.* At times, the Census distinguished between blacks and the Spanish speaking. In other tabulations, unfortunately, both minority groups were combined. Whenever the data distinguished between blacks and Hispanics separately, important differences between the situations of the two communities were apparent. We have noted already the dissimilar patterns of residence within the metropolitan areas. Subsequent data will reveal differences in the structure of family life and unemployment. Treating blacks and Hispanics as interchangeable cultures is a seriously mistaken simplification.

However, there is enough common experiences with segregation and discrimination to present an analysis such as that of the Urban League's and realize, at least as far as we are discussing the effects of racism, that the black experience mirrors the Hispanic situation.

The National Urban League's analysis shows that the economic status of black families has been declining rather than improving. As Dr. Robert Hill put it in his analysis for *The State of Black America - 1979:*

> "In contrast to economic trends among whites, the economic situation of black families did not significantly improve during 1978. Not only is the actual jobless rate for all blacks still at depression levels, but the gap between the unemployment rates of blacks and whites is at the widest it has ever been. Moreover, there are more unemployed persons among some groups of black workers today than there were during the peak recession year of 1975. Consequently, black family income has fallen further behind with family income in both absolute and relative terms."[4]

Dr. Hill presented a very detailed analysis of the economic situation of black families, which we will summarize here.

Overall Unemployment

While white unemployment was reduced in 1978, the number of unemployed blacks remained at 1.5 million. The jobless rate among blacks is now 2.3 times as high as that among whites.

The National Urban League computes a Hidden Unemployment Index, which shows that the actual number of black unemployed was at 3.5 million and had not changed over the intervening year. The hidden jobless rate for blacks is actually 23.1%, as compared to 11.1% for whites.

Adult Joblessness

The number of unemployed adult black males fell from 551,000 to 500,000. However, the reduction in adult white unemployment was so much steeper that the gap in adult unemployment between blacks and whites increased from 2.2 to 2.3 times larger.

The unemployment rates for black adult women did not change, remaining at 560,000 for both years. Because the jobless rate for women did decrease, the unemployment gap between black and white women also increased.

Unemployment for black males who were heads of households declined during the year, but the number of unemployed black women who are heads of households remained at 200,000.

Teenage Unemployment

Department of Labor data indicates that the extent of black teenage unemployment increased during 1978: it was 367,000 in 1977 and 400,000 in 1978. Furthermore, when the Urban League's Hidden Unemployment Index is computed for teenagers, we find that approximately 57% of all black teenagers were unemployed.

Multiple Earners

Traditionally, black families have had a slightly higher proportion multiple earners than white families: according to Dr. Hill's figures, the comparable rates were 58% to 52% in 1967. However, the number of white families with more than one earner has been increasing while the incidence of multiple earners among black families has been decreasing. The decrease among black families is perhaps accounted for by the employment problems of black women and teenagers. This lack of an additional earner poses a serious economic threat to families with an unemployed woman as the head of the household.

Family Income

The median income for black families increased 3.5% between 1976 and 1977, while increasing by 7.7% for white families in the same period. The absolute figures for median incomes for 1977 were $9,563 for blacks and $16,740 for whites. The ratio of black to white family income was 57%, which is down 2% from 1976. Even more troubling for the black family was that when family income was adjusted to constant dollars, "the real purchasing power of black families declined sharply (about three percent) between 1976 and 1977, while increasing somewhat (about one percent) among white families."[5]

Dr. Hill also argues that the recessions and inflations of the 1970's have either diminished the size of the black middle class and upper-income class, or caused them to not increase since 1973.

Low-Income Families

In 1978, there were 156,000 more black families with incomes below the poverty level than there were in 1970. For whites, on the other hand, there were 168,000 fewer poor families. Between 1976 and 1977, the number of poor black families increased by 20,000. All of this absolute increase in the number of poor black families is accounted for by the increase in the number of black families with a female head of household which slipped into poverty: there were 40,000 more poor black families with a female head and 20,000 fewer poor black families with a male head. The Urban League's analysis points out that this great vulnerability to poverty on the part of families with a woman head occurs for both black and white families.

Children in Poverty

Between 1976 and 1977, the number of children in poor families increased by 92,000, from 3.8 to 3.9 million children. The increase of children in poor families occurred largely in families with a female head. There was an increase of 107,000 in the number of children in poor black families with a female head of household.

Families on Welfare

The percentage of black families receiving public assistance rose from 22% to 23% between 1975 and 1976. Again, the problem of public assistance was experienced more heavily by female-headed black families, of which 49% were on welfare.

The Structure of Central City Minority Families

Beyond the overall problems of racism which Dr. Hill's analysis documents, we see clearly the terrible burden which the black matriarchal family carries. Most studies indicate that black, Hispanic and white families with both parents living at home are more likely to have a higher income and less likely to fall below the poverty level than families with only a female head of household. The complex factors of racism and sexual discrimination compound the black matriarchal family's pursuit of adequate income and housing. Blacks and Hispanics are denied equal access to jobs and income. Sex discrimination forces women into lower paying jobs. Women with young children to care for, having no other wage earner in the family are forced to go on welfare.

The data in Table 3 summarizes the status of families living in the metropolitan areas in 1977. Regardless of place of residence, black families are less likely to be headed by both a husband and a wife. Black families are considerably more likely than whites and somewhat more likely than Hispanics, to live in families with a female head. And Hispanics are more able than blacks to maintain the traditional husband-wife primary family.

TABLE 3. Status of Families by Central City/Non-Central City, by White, Black, and Hispanic

		Central City	Outside Central City
Husband and Wife	White	54.9%	71.0%
	Black	38.2	55.2
	Hispanic	57.3	70.9
Female Head	White	8.7	10.2
	Black	29.0	22.3
	Hispanic	20.8	11.5

(Source: U.S. Census, "Characteristics," Table 5, p. 34.)

However, the most important point to note is that, in the central cities, there are almost as many black families headed by a female as there are families headed by both a husband and a wife. This represents a distinct deterioration of the central city black family since 1970, when 49.3% were headed by a husband-wife unit and 23.9% were headed by females. In the intervening years the percentage of two parent families decreased while the percentage of female-headed families increased.

This state of affairs results from a number of factors. The small but noticeable migration of blacks to the suburbs undoubtedly was largely a two-parent family migration. Second, the worsening economic situation of blacks might well have caused an increase in divorce, desertion, and abandonment. Third, there has been a precipitous increase in the illegitimacy rate among blacks. According to a 1978 report of the National Center for Health Statistics, more than one-half of the black children born in 1976 were born out of wedlock.[6] Minority cultures traditionally have kept their illegitimate children, forming a new family unit but one headed by a woman.

The Economics of Central City Minority Families with Only a Female Head
As Table 4 demonstrates, the combined effects of being a black family living in a central city with a female head of household are devastating, 51.1% of these families fell below the poverty level in income. Their rate of poverty is almost five times as great as that for black families with male heads; twice as large as the rate for white families with a female head of household; and ten times as great for white families with a male head. In comparison with families with a male head, black matriarchal families in metropolitan areas outside of the central cities fare even worse than they do in the central city—almost six times more likely than black male families and about fifteen times more likely than white male families to be below the poverty level.

TABLE 4. Percentage of Families Below Poverty Level by Race, Sex of Head of Household, Central City/Non-Central City 1976.

Race	Sex of Head	Central City	Non-Central City
White	Male	5.0%	3.0%
	Female	26.9	22.0
Black	Male	11.7	8.8
	Female	51.1	44.2

(Source: U.S. Census "Characteristics," Table 20, pp. 116-121.)

The weight of racism in central cities also can be seen in Table 5 which shows 42.1% of the black children under the age of 18 live in families which fall below the poverty level of income.

TABLE 5. Percentage of Related Children Under 18 in Families Below Poverty Level by Race and Type of Residence

Race	Central City	Non-Central City
White	16.1%	7.6%
Black	42.1	27.8

(Source: U.S. Census "Characteristics," Table 20, pp. 116-121.)

Families with a female head of household also fare worse in terms of median income. Table 6 presents some very harsh data which point to the plight of women trying to hold families together in the central city, regardless of race, while again underscoring the added burden of race.

TABLE 6. Median 1976 Income by Sex and Race of Head of Household, by Type of Metropolitan Residence

		Type of Residence			
		Central Cities		None-Central Cities	
Sex of Head of Household	Race	Income	Black % of White	Income	Black % of White
All Females	White	$15,062	—	$17,371	—
	Black	9,361	62.2%	12,037	69.3%
Male Head	White	16,048	—	18,319	—
	Black	13,796	86.0	15,122	82.5
Female Head	White	7,914	—	8,985	—
	Black	5,125	64.8	5,789	64.4

(Source: U.S. Census "Characteristics," Table Q, p. 15.)

First, to the overall question of race, blacks do not earn as much as whites, whether they live in central cities or the suburbs. While suburban black families with a male head of household earn a median income slightly higher than the median income for central city whites, all other relevant comparisons within this data show that black families are living on smaller median incomes than white families.

A second pattern in the data charts the income discrimination that women who head families experience. Families with a female head of household have a median income far smaller than that of either the median income for all families or that of families with a male head. This pattern of sexually differentiated annual income pertains whether the family lives in the central city or in the suburbs.

However, when the pattern of racial and sexual barriers to income are combined, the real tragedy of this situation becomes apparent. Black families with a male head of household, while earning less than white male headed families, are not that far behind, both in the central cities and the suburbs. The problem of racial discrimination hits the women trying to run a family much harder than it does families with a male head. In fact, the patterns of wages and income are so perversely structured that the bias of sexual discrimination affects black women far more than it does white women. Black female-headed families have a median family income that is only 37% of that earned by families headed by a black male, while white women are running their families on 49% of the income enjoyed by white families with a male household head.

Dr. Hill's analysis for the National Urban League's report commented on the special problems faced by families with a woman head of household, and noted that this problem exists for both black and white families. The plight of those families, laboring to overcome both racial and sexual discrimination, must be a primary concern of neighborhood revitalization.

Unemployment and the Special Problems of Youth Unemployment

The Urban League's report noted the decline of black families with more than one wage earner. The income from another wage earner, even if they are low wages, can make the difference between whether a family stays above the level of poverty. For the black matriarchal family, unemployment, and particularly that of teenagers, is slightly significant.

Table 7 presents unemployment data for whites, blacks, and Hispanics living in metropolitan areas. The unemployment rates for blacks, whether in the central city or not, are more than twice the rates for whites. Blacks also suffer a significantly higher unemployment rate than do Hispanics. The major exception to this latter pattern is to be found with Hispanic women in metropolitan areas but outside of the central cities.

TABLE 7. Metropolitan Unemployment Rates for Whites, Blacks, and Hispanics, 1977, by Central Cities and Outside Central Cities by Sex (Total 16 and Older)

Sex	Race	Central City	Outside Central City
Male	White	7.6%	6.3%
	Black	16.3	12.8
	Hispanic	11.6	9.4
Female	White	7.6	7.9
	Black	14.7	12.8
	Hispanic	10.0	16.0

(Source: U.S. Census "Characteristics," Table 11, pp. 64-71.)

Of even greater magnitude than the overall unemployment rates for blacks and Hispanics are those jobless rates being encountered by minority youth. The data in Table 8, which deals only with central city residents, shows how badly black youths, both male and female in the age groups from 16 to 25, are doing in terms of employment. In the 16-19 age group, blacks have an unemployment five times that of whites and twice that of Hispanics. The black unemployment rate for the 20-24 age group is 2½ times as high as that of whites and nearly two times as high as that of Hispanics.

TABLE 8. Unemployment Rates by Age, Sex, and Race in Central Cities

	Males			Females		
Age	Whites	Blacks	Hispanics	Whites	Blacks	Hispanics
16-19	19.2%	51.2%	23.2%	17.6%	42.4%	—
20-24	11.1	27.1	15.6	9.4	28.2	11.8
25-34	7.,3	13.8	10.7	5.9	16.5	7.0
35-44	5.4	11.2	9.4	6.7	7.1	9.0
45-54	4.3	6.3	8.4	5.8	5.7	8.6
55-64	5.3	10.5	9.6	4.8	5.6	—
65+	7.6	14.3	—	7.5	—	—

(Source: U.S. Census "Characteristics," Table 11, pp. 64-71.)

The problem of teenage and youth adult unemployment is of growing concern to black leaders and national policy makers. For most teenagers, work is of secondary importance because they are in school. However, for poor black families, an employed teenager is often an economic necessity. Many black teenagers are out of school already, and so a job is of more than secondary importance.

The problem of teenage black unemployment is not likely to improve. As James Singer put it in the *National Journal,* "For black youths, the situation almost certainly will get worse before it gets better."[7]

The causes for this pessimistic outlook and for black youth unemployment are many. One problem is demographics. The post-war baby boom has swollen the number of teenagers and young adults. According to Singer, the number of teenagers in 1977 was about twice the number it was in 1948. In 1948, the teenage population was 8.8 million; in 1977, it was 16.8 million. While the absolute size of the teenage population will decline through the 1980's, the proportion of black teenagers will continue to grow because of their higher birth rates during the 1960s.

The economy has been unable to produce the number of jobs that would fully employ this sizeable population, and this is especially true of the black teenager. Of course, a more long term problem is what will happen to the black teenagers as they enter, *en masse,* the labor force as adults. This problem leads to a second major cause of black youth unemployment. Having left school early, many black youths lack the skills necessary for employment in an increasingly technological society, in an economy in which the new jobs being created are in the tertiary or service sector, and not in lower skilled or manufacturing employment. To complicate their problems, black youth are concentrated in the central cities, where jobs are the most scarce.

Table 9 shows again the unique problems that Hispanic women are experiencing in areas outside of the central cities. For young Hispanic women living in these areas, their unemployment rates are far worse than for those living in central cities. For the 16-19 age group, the rate is almost as bad as that experienced by blacks living in the central cities in the same age groups.

TABLE 9. Female Hispanic Unemployment in Central Cities and Non-Central City Areas by Age

Age	Central City	Non-Central City
16-19	—	30.1%
20-24	11.8%	15.3
25-34	7.0	14.0
35-44	9.0	9.8
45-54	8.6	17.9
55-64	—	—
65+	—	—

(Source: U.S. Census "Characteristics," Table 11, pp. 64-71.)

Special Problems of Housing and Displacement

There is very little indication that the concentration of poor minority families headed by females in the central cities is likely to change. There is absolutely no difference between blacks and whites in the proportion of families who moved between 1970 and 1977—26.6% of the black families and 26.4% of the white families.[8] However, the nature of the movement that does take place is substantially different. For whites, almost one-half (43.9%) of the movers end up outside of the central cities, either because they lived outside of the central city to begin with and moved to the same type of area, or because they moved out of a central city.

On the other hand, over one-half (57.1%) of the movement of black families resulted in a central city resident.[9] 45.5% of black movers moved within the same central city. It is distinctly possible that a large portion of the black family movement within the same central cities has been caused by an involuntary displacement from housing. According to the study performed for the Commission,[10] in 1976 there were 3 million families with incomes below $4,000 living in central cities but only 1.1 million units within their economic means (25% of income for rent)—a gap of 1.9 million housing units. In 1976, there were four million households in central cities with incomes too low to afford, at 25% of their incomes, monthly rental rates of $100. Therefore, 2 million central city families were paying more than 50% of their incomes for rent, while another 1.5 million were paying between 35% and 50% of their incomes for rent.

Already at the brink of their available means, these families are particularly vulnerable to being displaced from their housing. George and Eunice Grier have estimated that most displacement occurs because of increases in housing costs and the removal of housing units due to deterioration, abandonment, or simple lack of maintenance.[11] For the low and moderate income family, their housing stock is shrinking while their housing costs are increasing.

According to data from HUD's 1976 Annual Housing Survey, between 1973 and 1976, 2.3 million units were removed from the housing inventory.[12] Of these units 725,000 were in central cities, and 582,000 of the central city units were occupied before removal. While there are many reasons for removal from the housing stock—demolition, disasters, or conversions to lower density use—the data suggests that a major proportion of the reduction in units resulted in the involuntary displacement of poor black families. Thirty-eight percent of the households occupying the structures before removal were black. Approximately fifty percent had annual incomes below $5,000: Thirty-three percent had incomes below $3,000. Forty percent of the households with two or more people were headed by women. As the Commission's consultant put it: "It is thus evident the impact of displacement falls disproportionately on black people, on low income people, and on households headed by women."[13]

The Commission also received an analysis of some unpublished data from the 1976 Annual Housing Survey. This data reveals that over 500,000 people annually report being displaced "by urban renewal, highway construction, or other public action," and "by private action." These tabulations do not count people who were forced to move because of housing deterioration or abandonment, or because of housing cost increases. Thus it is quite possible that the number of people displaced involuntarily each year could reach as high as 1,000,000. Poor black families headed by women and living in the central cities would be the most vulnerable to this displacement.

Minority communities have had to struggle to minimize their displacement from central cities and to maintain their identity as a community. Even the past public programs supposedly designed to help urban minorities often have hurt them instead. Now minorities are becoming the first and worst casualties of the reverse migration of the affluent back to the central cities.

Where minorities once feared "negro removal" due to public actions such as urban renewal, they now face displacement resulting from the private sector as well. Vernon Jordan has warned: "Most blacks live in cities. But many experts are coming up with plans for revitalizing cities by attracting the white middle class back. And they say not one word about the black urban poor."[14] Some who are displaced are bought out. Others are fortunate enough to move up and out. The majority, however, become urban revitalization victims, refugees moving from ghetto to ghetto.

The displacement of Hispanics is especially devastating. Many have limited economic and cultural mobility. Frequently, because of language barriers and unfamiliarity with the bureaucracies, Hispanics may not even claim relocation benefits.

There are indications that the problems of displacement can sometimes pit minority against minority. In a few cities, most notably New York and Washington, blacks being displaced have been forced into adjoining Hispanic neighborhoods, causing a subsequent displacement. However, this problem has occurred very infrequently. It is surprising and indeed fortunate, given the magnitude of the problems of displacement and abandonment, that minorities have not been forced to compete over the same neighborhoods.

No one tracks the displacees of neighborhood revitalization. Indeed there is no coherent planning process of any kind at the neighborhood level for neighborhood revitalization. Increasingly, housing policy in general is an accidental, patchwork process; this factor, along with the fragmentation of neighborhood and economic development programs, virtually precludes an effective response to displacement.

Local government and the private sector often compound the injustice. Methods of assessing and valuing property, and the decline of public services in neighborhoods have not only signalled thier deterioration, but accelerated it. Redlining by banking institutions and insurance companies left neighborhoods unprotected for losses inflicted by arson, fire, and vandalism.

Discrimination in lending or in the approval of mortgages and insurance reflects the traditional trickle down theory of neighborhood change. This theory in effect identifies race and color as major factors which inevitably presage neighborhood decline. Studies indicate that there is no empirical economic rationale for the wholesale redlining of minority neighborhoods. Yet the theory pervades every aspect of real estate practice, denying credit and investment funds for inner-city neighborhoods. Worst of all, the theory is only a theory, used to perpetuate a system founded on racial discrimination. Studies indicate that there is no empirical economic rationale for the wholesale redlining of minority neighborhoods.

The rising cost of housing is another economic reality that particularly affects minorities, a relative small number of whom already own homes. A welter of federal regulations concerning materials, safety, and construction standards have impeded the use of new technology and techniques that could bring housing within reach of low and moderate income families. Federal energy performance standards for new buildings, if made mandatory on the states or widely adopted by state governments, would push costs still higher.

There are conventional architectural designs that may compound further the housing problems of minorities. A disproportionate part of the minority poor, especially the elderly, have special needs, as do the large families that are more characteristic of minority populations.

So even the removal of redlining barriers to reinvestment is more likely to benefit the majority than minorities because other factors such as cost and design create additional obstacles for minority residents. Nor is the difference likely to be compensated by new government housing initiatives even on the scale of the programs in effect prior to President Richard Nixon's imposition of a moratorium. Instead, there is a continuing tendency to tell the ill-housed to sacrifice decent shelter in favor of fiscal restraints, supposedly necessary to fight inflation. This trend reduces the positive efforts of the Department of Housing and Urban Development to the barest minimum.

Recent experience and present necessity raise the question whether the federal government should be relied on as the single source of subsidized housing. Leon Finney, Director of Chicago's The Woodlawn Organization, has argued: "Housing cannot depend solely on the federal government; any subsequent action to take the feds out of housing takes every one out, as in the Nixon moratorium. Local incentives, combined with commitment from the private sector, can provide an added and independent force for lower and moderate income housing."[15]

Finally, and fundamentally, fair housing laws must operate in the neighborhoods as well as exist on the statute books. They must become a fact of urban and suburban life everywhere in the United States. The mere existence of such laws is not enough. In 1968, in *Jones v. Mayer*, the Supreme Court ruled that federal legislation requiring open housing had been enacted in 1866: and been ignored over the intervening century. Ten years after *Jones v. Mayer* and the Open Housing legislation passed in the wake of Martin Luther King, Jr.'s assassination, too many urban neighborhoods and suburbs are still rigidly segregated.

Fair housing will never be fair in fact as long as exclusionary zoning sets suburbs off as a separate preserve rather than part of an integrated society. With judicial remedies apparently limited under current law, new legislation at the state and federal levels to combat racial discrimination in the guise of economic distinctions is essential. Vigorous enforcement of all open housing rules is also a vital means of rehabilitating neighborhoods without resegregating them. Otherwise, as the market for housing becomes tighter, sales practices will become more racially restrictive.

Economic Development in Minority Communities

The chance for minorities to live in decent homes in revitalized neighborhoods is a direct function of access to economic opportunity in those neighborhoods and to the regional job base, both private and public. Traditional strategies for minority job development have attacked the exclusion of minority workers from educational opportunities that provide skills and on discrimination in hiring and promotion. There have been legal efforts to open job opportunities in construction and the building trades. Other efforts have been designed to encourage minority business through private and public procurement policies and to provide sheltered business opportunities for minority entrepreneurs.

Construction set-asides for minority workers, contractors, and other businesses have been upheld by state and federal courts. Specific applications of the set-asides to neighborhood construction projects must be developed. It is a short term measure which will not provide long term employment. It is, however, one important step toward expanded economic opportunities for minorities living in rehabilitated neighborhoods.

Other steps are also vital. Low-income neighborhoods must move away from an economy based on government grants. Minority corporate structures must be formed. Further support for existing minority banking institutions and for the organization of new ones, such as credit unions, can encourage the retention and use of scarce capital before it is exported from the neighborhood. State and local deposits in minority banks of federal funds targeted for projects in minority neighborhoods would have the multiplier effect of increasing the credit base for minority individuals and businesses.

In virtually every urban neighborhood, there is a significant demand for goods and services that can be met through provision of capital, creation of self-sustaining businesses, and insuring access of minority workers to job opportunities.

Small and moderate businesses generally find minority neighborhoods capital poor. Experience with the minority programs of the Small Business Administration and minority contractor set-asides indicate that supplying debt financing is not enough where the normal operation of the economy does not provide sufficient venture or equity capital for start-ups and expansions. The margin provided by such equity capital can make the difference between success and failure when ownership is almost totally capitalized on debt. The current approach to urban development banking has paid little attention to the particular venture capital needs of minority enterprises. Capital formation for minority neighborhood development cannot be prescribed in a vacuum. It is important, for example, to adapt the process to neighborhood circumstances as they really are—to identify the needs of capital poor constituencies in similar situations, and to tailor banking mechanisms to the development potential arising from neighborhood projects.

Finally, minority economic development in the neighborhoods require a corporate mechanism to maintain the continuity of development. In some communities, this mechanism may be a community development corporation; in others, a community-based housing development corporation; and in still others, the local affiliate of a national civil rights organization. Such institutions can influence the pacing and intensity of development. They can protect the interests of community residents who otherwise might be bought out or left back.

Minority Political Leadership

Having borne so heavy a share of neighborhood problems, minorities must have a strong role in shaping a new neighborhood policy. Too often, minority participation in neighborhood development is primarily reactive rather than interactive. The identification and assessment of needs, the evaluation of programs, and the design of new models for further development are primarily in the hands of the majority. Priorities are set and proposals drafted before minority advice or involvement is sought. Commissioner Ethel Allen has said: "The only time minorities are included is when it is necessary to satisfy some guidelines."[16]

The operation of the "old boy" network permeates all levels of policy analysis and program implementation. This is not a deliberate effort at exclusion but has its roots in the informal contacts which prevail among advocacy groups dealing with neighborhood development and the departments and agencies of the federal government. The issue is not one of how many grants have gone to specific minority neighborhoods, but how many receive a high proportion of all funds affecting development.

Leon Finney has pointed out that "government shies away from appointing minorities with strong constituencies outside of government."[17] Consequently, those few minorities on the inside do not have a sufficient network of relationships they can trust nor any influence within their own communities. The filtering down of resources and influence from top level appointees does not occur. Whites with extensive informal associations from the past influence the disposition of program funds and the involvement of those from whom programmatic advice will be sought. Deals are made on an informal basis.

Minority neighborhoods are often left powerless in the face of a hostile or insensitive city leadership. Ideally, government and neighborhoods should cooperate in development. Too frequently elected officials ignore the development needs of minorities. Thus, Raul Yzaguirre pointed out during Commission hearings, "The National Council of LaRaza is often asked by mayors' offices to create or assist local organizations, but it is more often asked by community-based organizations to pressure city hall."[18] Another witness, Al Perez added, "After all, the best programs were the ones Nixon cut out. In the Southwest, political structures are controlled by Anglos; this is why the money was cut off. There was too much leadership development and organization of the people. If leadership were responsive, there would be no need for community-based organizations, but this is not the case."[19]

Mature community organizations like Chicago's TWO typically had their genesis years ago in a bitter struggle with city hall, but in most cases, truces between officials and the organizations have eventually developed. According to TWO's Leon Finney, "This presupposes leadership in the CBO movement which can move from protest to development. Some groups have made the switch without sacrificing the picket signs. You negotiate until it is impossible to negotiate."[20]

Carl Holman, Director of the Urban Coalition, has described community-based organizations as a "cost-efficient way to deliver federal programs, to coordinate federal programs across agency lines, to put together packages of federal, state, local, and private programs in such a way as to meet the complex needs of ... localities."[21] On the other hand, Mr. Holman has observed, "Top down urban redevelopment does not protect the interests of low income and minority persons."[22] Commission members Mayor Maynard Jackson and Dr. Ethel Allen has urged elected officials to share the governing process with neighborhood groups. Mayor Jackson has commented, "We have a system of government (in which) people are elected to make decisions and be responsible for them, but these officials should be supportive of community-based organizations."[23] Allen has added: "No elected official need fear a community-based organization, unless they are derelict in their own duties to their citizens."[24]

Enforcement of Civil Rights Laws

Many of the problems confronting racial minorities, including those relating to employment, stem from the avoidance of enforcing civil rights statutes. Between 1968 and 1976, non-enforcement of civil rights could virtually be characterized as a government policy. Civil rights regulatory agencies at all levels of government were given inadequate financing. This is part of the reason the disparities between whites and racial minorities documented in this chapter worsened. The federal government is just now enforcing affirmative action plans for racial minorities and women. Decisions such as that in the Bakke case threaten affirmative action criteria for universities, and an adverse decision in the Brian Weber case could jeopardize those few gains which have been made by minorities in private corporations.

The tragedy of this history of non-enforcement and under-financing is that people can look back and say, "We tried, but nothing happened." Of course, this history has been an experience of programming for failure. However, the National Commission on Neighborhoods believes that the civil rights statutes are vitally necessary and that enforcement of these statutes can work. The civil rights regulatory agencies need adequate financial support, and the commitment to enforcing these laws must be pervasive.

Recommendations

The Congressional Black Caucus, in a letter and memo to President Carter, dated March 22, 1978, presented the Caucus's response to the President's urban policy. The Congressional Black Caucus listed five principles which they felt were "essential to any urban policy which is to receive the support of Black Americans."[25] These principles were:

- The Federal budget must be reordered so as to provide adequate resources for urban revitalization.

- Physcial development of housing, public facilities, and transportation must be focused on people living in areas of concentrated poverty, must provide job opportunities to those persons, and must not displace them from their neighborhoods.

- Tax policy and other federal expenditures must support the revitalization of cities rather than continue to undercut central cities while building up suburban areas. This includes federal procurement and contracting as well as direct federal financial assistance.

- Transportation policy must be reoriented so as to bring lower-income persons to jobs which have moved out of the central city rather than moving their wealthier suburbanites to their inner-city jobs. There must be at the same time movement of jobs back to the inner-city.

- Consolidation of human services for more effective delivery at the state and local level must be done in a manner which promotes jobs for residents of areas of concentrated poverty.

The National Commission on Neighborhoods fully supports this action agenda. Most of the Commission's research and recommendations were designed to achieve these purposes. The Commission reache its recommendations independently of the work of the Congressional Black Caucus. However, the issue of urban neighborhoods cannot be abstracted from the problems of poverty, so that there is little wonder that the Commission's recommendations and the Congressional Black Caucus's principles would overlap so extensively.

- *The Federal Budget and Urban Revitalization.* The Commission investigated not only the federal budget, but the whole range of departmental responsibilities and regulations that effect the flow of funds into and out of the central cities. The Commission is particularly sensitive to the concern that federal programs be adequately targeted to low and moderate income neighborhoods. The Community Development Block Grant program should allocate 75% of its monies to low and moderate income neighborhoods. The Urban Development Action Grant funds should be targeted to ensure that 1/3 of those funds are allocated to neighborhood projects. The Commission also identified a number of administrative changes which would lead to stronger programmatic support for minority business enterprises, community development corporations, and community credit unions. The Community Reinvestment Act and the Home Mortgage Disclosure Act need to be strengthened so that credit is available in minority communities. The

FHA must accept responsibility for financing rehabilitation and acquisition of existing housing in the central cities, while the public secondary mortgage market must exert support for existing housing stock.

- *Physical Development and Displacement.* The Commission has been particularly sensitive to the issue of displacement. Displacement because of low income, deterioration, or abandonment is a huge problem which must be addressed through a more enlightened use of federal housing programs like HUD's Section 8. The Commission does not oppose in principle the movement of the middle class back to the city or programs designed to help middle class families stay in the city. Indeed, it is obvious that cities need to be able to keep a large and growing black middle class within their boundaries. Nonetheless, "gentrification" is hardly the only solution for urban deterioration. Stimulating reinvestment and economic development within urban neighborhoods and facilitating the expansion of employment throughout the ranks of the unemployed or underemployed will create the income urban residents need to revitalize their own neighborhoods and communities.

- *Tax Policy and Federal Procurement.* Tax policies can act as both an incentive and a disincentive to neighborhood reinvestment. There are a number of concrete steps which can be taken to increase the power of federal income tax to spur investments in the central cities. For example, Section 167(k) of the Internal Revenue Code, allowing a five percent amortization of rehabilitation expenses for low and moderate income housing, should be continued beyond 1981. Owners of substantially rehabilitated housing should be allowed to use a 200% declining balance depreciation, while owners of low and moderate income multi-family housing should be able to use a 150% declining balance depreciation. The IRS Code should be amended to permit the creation of Community Reinvestment Trusts as a vehicle for allowing community organizations to invest in the improvement of their neighborhoods. Furthermore, federal spending and economic policies can be used to play a major role in directing economic activity into central cities. Even within the scope of existing, or perhaps reduced, federal expenditures, policies can be produced which would vitally improve the economic prospects of distressed regions, cities, and low and moderate income neighborhoods.

- *Transportation Policy.* While the Commission did not deal directly with the issue of transportation, we are fully aware of the issues and support the Congressional Black Caucus's statement of principle on this matter.

- *Consolidation of Human Services.* The Commission has been especially concerned about the delivery of human services, and with how the present system tends to fragment the delivery of services. The Commission is recommending that the Department of Health, Education, and Welfare provide direct funding of a demonstration project to institute neighborhood human services systems. These systems could be modeled after the Neighborhood Housing Services projects. They would act as advocates and brokers for people in need of services and serve to integrate human services activities on a local level through improved partnerships between local residents, neighborhood organizations, private service providers, and federal, state, and local governments. The Commission has also recommended that HEW establish a position of Neighborhood Advocate in each of its regional offices. In addition, the Commission has recommended that the funding available under Title XX of the Social Security Act be expanded, and that the provisions under Title XX relating to technical assistance and training and citizen participation be clarified and strengthened. Finally, the Commission has recommended that all levels of government hire minority human services experts who have a commitment to and understanding of the needs of their constituents.

The Commission, in its deliberations, has also developed its own agenda of recommendations. The following recommendations, from an issue conference held by the Commission, are actions that could have been taken, should have been enacted, and must now be achieved.

1. Assistance to minority neighborhoods through housing, economic aid or other programs needs to be increased.

2. Community and economic development programs shall mandate provisions for increased participation by minority and low income community-based organizations.

3. The federal government shall provide incentives and training programs for neighborhood groups in program planning and evaluation in order for them to effectively collaborate with elected officials and administrators.

4. Funding priorities for neighborhood development shall be adequate enough for minorities to minimize competition and to ensure that minority and low income communities receive a share which is proportionate to their needs.

5. Program guidelines for citizen and neighborhood participants shall be clear and precise and specifically include minority and low income neighborhoods. Guidelines shall mandate representation from neighborhood organizations on all city policy boards which administer federal funds.

6. Neighborhood lobbyists are needed at every level of government to advocate and to evaluate legislative proposals and regulations. A more activist stance is necessary and it shall include minority involvement and perspectives from the outset.

7. The government's capacity building for financial management and the leveraging of funds and programs shall be expanded to train minority and low income neighborhood residents. Minority neighborhood groups need training in federal grantsmanship and in the legislative process. This training and technical assistance shall be provided by federal funds.

8. Increased neighborhood funding is required if there are to be measurable program outcomes and if inter-group competition is to be minimized.

9. All levels of the public and private sector shall hire minority neighborhood development experts who have a commitment to and understanding of the needs of their constituents.

10. There shall be extensive minority staff participation in commissions and other government-sponsored organizations which deal with neighborhood development.

11. Federal procedures, including the strengthening of mandated participation and A-95 procedures, need to be established for ongoing consultation with minority leaders and groups for the review and monitoring of policies which affect urban and minority communities.

12. All national programs and policies that impact on minority communities shall be coordinated to prevent duplication and promote maximum community growth and development.

13. Educational programs and planning procedures should be instituted to bring neighborhood groups and the private sector together to assess community needs and resources. Agreement should be sought on the following: indicators of economic distress; evaluation of resources; range of alternative strategies; and on the role to be played in economic development and reinvestment programs by various public and private agencies and individuals.

14. The private sector should be urged to study and implement economic strategies which have been successful in other neighborhoods throughout the country. The economic empowerment and involvement of minority businesses should be an essential part of this effort.

15. The federal government should design program regulations and guidelines which will facilitate neighborhood leveraging of funds and programs. Complicated applications, unrealistic deadlines, frequent revisions of programs, and exaggerated fund commitment procedures should be eliminated.

Governance, Citizen Participation, and Neighborhood Empowerment

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Introduction

Throughout 1978, the Task Force on Governance engaged in a process of study and analysis that involved many neighborhoods and thousands of people. The task force commissioned over forty case studies, conducted in cities and neighborhoods across the United States. These were made possible through the financial support of the National Commission on Neighborhoods, as well as the Gund Foundation of Cleveland, ACTION, the Community Services Administration, and the Department of the Interior. Over 1,500 people were interviewed, including 137 leaders, 66 staff persons and 250 members of neighborhood organizations, 14 mayors, 6 city managers, 125 other city officials, clergy, news reporters and opinion leaders.

In addition to hearings and tours held by the entire Commission, the Task Force held special hearings, spoke with people from national organizations and federal agencies, commissioned research reports and policy papers. The Task Force conducted three conferences involving neighborhood representatives and federal agency representatives. A conference, Historic Preservation Without Displacement, was cosponsored by the Commission and the HUD Office of Neighborhoods. A conference, the Voluntary Sector in Support of Neighborhood Revitalization, was cosponsored by the Task Force Force on Governance, the Ford Foundation, and the University of Southern California's Washington Public Affairs Center. Finally, in December, 1978, 120 neighborhood leaders from 50 cities, along with representatives of national organizations, agency officials, and policy experts met in Washington, D.C. They reviewed the policy options of the Governance Task Force and made recommendations to the Commission. This conference was cosponsored by ACTION, the University of Southern California, the Gund Foundation, and the Commission, with major assistance from the Self-Help Resource Center.

Key Concepts

This chapter will focus on strategies and structures for governance within cities and neighborhoods. To do this, different forms of participation in governance will be analyzed in terms of their potential for building capacity and equity for neighborhoods as well as for building "neighborhood competent" governments. Strategies for realizing this potential will be described and recommendations will be outlined.

The key concepts in our framework for analysis are governance, capacity and equity. More important than these concepts in isolation, however, are the relationship among them. Governance may be defined as the process of decision making, control, and redistribution, carried out through institutions, and guided by laws and tradition. Governance is political, although the focal institutions are not always those typically referred to as "government." Often public institutions are supplemented by private ones which carry out similar functions through alternative structures such as community organizations or neighborhood controlled development and service organizations.

Of course, these private institutions are bound by public laws, but customs or traditions often play an equally important role. Participation and community initiative have been recurring themes of the American tradition. Alexis de Tocqueville wrote of the special nature of American democracy nearly a century and a half ago:

> "...everyone, in his sphere, takes an active part in the government of society...to take a hand in the regulation of society and discuss it is his biggest concern and, so to speak, the only pleasure an American knows."

As a result of widespread participation, non-governmental structures and groups have shaped the quality of public policy and the governing process,by holding public officials accountable, and by repeatedly pressing for and securing major reforms. When governments have been unresponsive, citizens have developed ways of achieving their goals independently, through self-reliance.

The second key concept, capacity, may be defined in two ways. In one sense, capacity is competency, power, and the ability to deal with problems. In another sense, capacity is the ability to nurture and accommodate. Power and nurturance depend on different types of resources. Power involves skills and financial resources. The skills required for the effective exercise of power include organization, leadership, management, and the technical expertise to plan, conduct research, and implement projects. Financial resources for power include money, capital, and other assets needed for skill development and project implementation.

The defining elements of the nurturance dimension of capacity are human and community resources. Included here are people expressing themselves through family, through neighboring, and through voluntary networks such as churches, PTAs, ethnic groups, fraternal associations, veterans organizations, taverns, soda fountains, and street corners. These are contexts which bond people together, develop support systems, and form a personal basis for living.

Human and community resources exist to some degree in every neighborhood. They are the natural resources of the neighborhoods. In turn, neighborhoods are natural resources of cities, with unique reserves of personal commitment to others, of volunteer energy ready to be tapped and channeled. The other forms of capacity are the necessary means of tapping such resources. Each neighborhood is unique so each requires a different mix of skills and financial resources.

The third key concept, equity, also must be sent in multiple dimensions. Equity is first of all freedom from bias. Some groups in America have been subjected to economic and racial discrimination, stacking the odds against their hopes to adequately build the capacity to address problems. In case studies conducted by the Commission, special capacity building needs were observed in neighborhoods with blacks, Chicanos, Puerto Ricans, Chinese, Japanese, Jews, white ethnics, Appalachians.

Neighborhoods, therefore, have different levels of skills, different levels of economic resources, and diverse types of human groupings and networks. Since neighborhoods have unique combinations of these capacity building resources, each neighborhood has a unique combination of needs. This fact argues for flexibility on the part of resource providers. For example, city governments must respect the diversity and respond to each area with an appropriate mix of resources and capacity building efforts. Only then can the "special good" be addressed, and the principle of equity observed.

Yet, to achieve equity, we must also look to the "common good." A city needs mechanisms to resolve parochial differences, to view neighborhoods as unique and yet as parts of a single whole and to facilitate decisions that on balance best serve the common interest. Given limited resources, decisions address special needs, yet simultaneously are sensitive to their impact on that common interest.

The relationships among governance, capacity, and equity are somewhat paradoxical. On the one hand, among groups with limited capacity, lacking money and skills, governance mechanisms are needed to redistribute resources. Thus equity may be achieved when political processes and structure are working responsively. On the other hand, without the capacities of leadership and organization to infuence the decisions of government, the resources that are redistributed in theory to achieve "equity," in fact can be, and often are, allocated to the benefit of already powerful interests and institutions. For example, Urban Renewal projects were designed to eliminate slums. Yet they cut into city neighborhoods with little sensitivity to the residents and less attention to relocation. Thousands were shunted from one slum to another. The program was presented as one for the poor; the profits went to affluent developers who engaged in "urban removal."

Other redistribution systems, such as welfare, have been criticized for similar reasons. The programs claim to redistribute the resources. Yet in the end they may perpetuate dependence rather than building the capacity of recipients to control their own lives.

To build capacity, some have proposed new urban partnerships, calling for voluntary cooperation among business, government, and neighborhoods. Unfortunately, lessons drawn from other areas, such as international relations and labor relations, indicate that unless partners are relatively equal, relating on a basis of reciprocity and accountability, the resulting decisions will be ineffective. Without the capacity to fight for political decisions with skill and power, one engages in governance from a position of weakness. Andrew Mott, of the Center For Community Change, noted that, "It is difficult to conceive of a true partnership in which one partner has a stranglehold on the resources which are crucial to the other party's ability to function."[1] Under these circumstances, programs and projects, attempting to provide equity, are doomed to fail.

Some groups and neighborhoods would seem to be trapped on an endless cycle. They lack the capacity to meet their needs. Their major hope lies with the process of governance. Yet governance cannot provide true equity until the capacity is gained to enter a genuine partnership with other decision makers. To break the cycle, to make governance work, and to achieve equity, the key is capacity. Skills and financial resources must be marshalled to harness the natural human resources existing in every group of people. The Commission believes that:

> *Capacity is crucial to governance. Without it, governance tends to lack true equity, as it lacks accountability. As a result, it tends to become patronizing and perpetuate dependency.*

Causes for Crisis in Governance, Capacity and Equity

It is difficult to live in America today without being aware of the "urban crisis," and the factors which produced it. Many blacks, Appalachian whites, and Hispanics, were pushed from farms by automation, crop failures, and poverty., They were pulled into cities by the availability of jobs. However, simultaneously, changes were taking place which eroded the cities' ability to provide its residents with services and opportunities. Technological advances and shifting needs for labor allowed businesses to flee the cities for cheaper land, lower taxes, and suburbs. Cities were left with increasing demands and a shrinking tax base.

In addition, advancing technology brought a trend towards bigness—big business, big media, big government, big problems. As further industrialization required more and more capital, only the larger firms were able to absorb the risk. As government took on more and more responsibilities, including regulation of the economy, redistribution of money, and the provision of services, bureaucracies expanded and centralized. The relationships between average citizens and the institutions affecting them became remote, depersonalized, and less able to respond to individual needs.

The trend towards centralization affected all levels of government. Many cities abandoned neighborhood or ward elections in favor of at-large, even non-partisan ones. City managers replaced many strong mayors. "Independent" public authorities were created to administer municipal services such as public transportation.

All these "reforms" reduced the power of political parties at the local level. New forms of politics arose that by-passed party structures. The advent of television meant candidates needed unprecedented sums of money. To raise this money, the progressive good government mayors went to their partners in the new scheme of things, the business interests of the city. This further weakened the ties between government and neighborhoods, making equity harder to achieve.

In sum, cities have experienced a reduction in resources, an increase in demands for services, and a reduced capacity to respond to neighborhood needs. Vast, unaccountable structures have executed policies such as urban renewal and interstate highway construction, destroying both the physical and human resources of neighborhoods. As a result, the capacities of both city government and city neighborhoods declined. It is not surprising that a grassroots movement for neighborhood power, and a movement for municipal decentralization have both gained momentum in the 1970s.

Rationale For a Neighborhood Focus in Governance

If city, state, and federal governments are to effectively respond to people's needs, and if the natural resource of every person is to be converted into energy for the common good, then healthy neighborhoods are essential. Neighborhoods are human in scale, and they are immediate in people's experience. Since their scale is manageable, they nurture confidence and a sense of control over the environment. Neighborhoods have built-in "coping mechanisms" in the form of churches, voluntary associations, formal and informal networks. The neighborhood is a place where one's physical surroundings become a focus for community and a sense of belonging.

Neighborhoods provide a focus for motivation and concern. People care about others they know on a face-to-face basis. Even the most devastated neighborhoods have some networks and support systems, with some human resources and capacities upon which to build. Neighborhoods provide the building blocks for cities and a unit for meaningful participation.

Forms Of Participation In Governance

In response to "the urban crisis," and to the unsatisfactory performance of institutions at all levels, citizens and public officials alike have struggled to find formulas for participation in governance that can produce effective, more participatory decisions. The forms have included neighborhood hearings, advisory boards, neighborhood councils, and decentralized bureaucracies. Citizens, for their part, have formed advocacy organizations, community-controlled corporations, and neighborhood-based service delivery systems. Some of these structures have been "hybrids," with the initiative and control shared by officials and citizens.

The following section will describe the major types of participation in governance at the neighborhood level. Each type will be discussed in terms of its potential for building capacity and achieving equity, the two keys to effective governance.

The Traditional Political Process

American democracy depends upon the voluntary participation of citizens. From childhood, people are encouraged to get involved, first by the public school system, then by political parties and civic organizations. The traditional avenues for political expression include voting, party membership, working in or donating to campaigns, supporting political action groups, and writing letters to editors and officials.

In earlier generations, cities were usually organized by political machines with precinct captains who knew the neighborhoods and their people. Many of the political bosses fostered a Robin Hood image. They might be caught wresting "kickbacks" from city contractors but their constituents knew that they provided patronage and services. Gradually middle class reformers forced changes such as at-large city council elections, "non-partisan" elections, civil service "meritocracy," and city managers.

While these reforms reduced parochialism, patronage, and corruption, they also created structures that often made government more remote and less accountable. At-large elections reduced the importance of ward level politics and blunted the clout of minorities and neighborhoods. As mass media grew in importance, moneyed interests, which could fund TV commercials, grew in influence. Again, the power of average citizens declined. Port authorities, transit authorities, and regional governments removed them one more step from the actual seat of power.

The consequence of government remoteness and citizen powerlessness are well documented. As Commissioner Arthur J. Naparstek has expressed it, "The authorized or institutionalized linkages between the citizens and his government have deteriorated to the point where the individual often feels an absence of control over his life."[2]

The problem is symbolized by the thousands of miles of federally supported highways. As affluent people moved to the suburbs, the Federal Highway Administration offered cities dollars so commuters could have easy access to central business districts. Construction lobbies and business interests favored the policy. This clout, plus all the billions of federal dollars, proved irresistible to city officials. They approved the roads, which meant demolishing houses, displacing residents, dividing parishes, disrupting natural networks of people, and destroying neighborhoods.

It is not surprising that neighborhood people sometimes rebelled, and formed community organizations to fight city hall. Although issue-oriented advocacy organizations have been working for political accountability for years, few have become actively involved in party politics. Internal Revenue 501(c)(3) tax exemption restrictions on political activities of non-profit organizations have been prohibitive.

Some recent candidates for office have recognized the potential power of the neighborhoods and have campaigned on pro-neighborhood platforms. The outcomes, however, have been mixed. In Portland, Oregon, Mayor Neil Goldschmidt has created an effective Office of Neighborhood Associations. Atlanta Mayor Maynard Jackson's campaign in 1973 resulted in the creation of Neighborhood Planning Units. Over the years, Hartford Council Chairman Nicholas Carbone has initiated a number of innovations regarding neighborhood participation in government. In Cleveland, Mayor

Dennis Kucinich ran a pro-neighborhood campaign, but alienated business and finally his own party which eventually supported his recall from office. Some neighborhood people have tried to create a third party. Chicago may be "the city that works," but in the 44th ward many residents felt that the Democratic machine was not working for them. Alderman Richard Simpson created an Independent Party Organization and the neighborhood-based 44th Ward Assembly.

Another strategy, traditionally employed by minorities, is to elect city council candidates by "bullet voting," or casting only one vote instead of the several that are allowed. This strategy occasionally elected a minority representative to an at-large office although it has also defeated sympathetic non-minority candidates or forced them to appeal to other, even anti-minority constituencies. The minority representative may then sit on a city council or school board without any realistic opportunity to develop coalitions that will advance minority interests.

Deeper involvement in political parties offers one participation strategy for neighborhood citizens and organizations. However, they are often resistant to political party involvement not only because of the restrictions of Section 501(c)(3) on the activities of non-profit organizations, but also because of the general decline of party influence, compared to interest group influence; the degree of compromise involved in party platforms; the inability of elected officials to have an impact on city bureaucracies; the diversion of energy from other strategies, such as "direct action" through confrontation; and the sacrifice of independence that might result.

Rather than working for candidates severely constrained by existing structures, some activities have fought to change the structure. San Francisco recently changed its Board of Supervisors elections from an at-large to a district system. Eugene Lee and Jon Rothman have analyzed this switch and reported generally favorable results for neighborhood interests. To win in the new system, neighborhood organizations had to develop citywide coalitions with unions and city employees. Candidates campaigned with less media; they walked more door-to-door; they spoke more to neighborhood issues and spent less money on the campaign. However, there was no significant increase in the number of people voting. Of course, attempts to institute district council elections are not always successful. In Toledo, for example, such efforts have failed twice.

In San Antonio, a neighborhood advocacy organization called COPS, with mostly Hispanic members, supported a referendum to elect city council members by district. After the referendum passed,five Mexican-Americans and one black were elected to the eleven member council. As a result, federal revenue sharing funds were committed to drainage projects in the Hispanic neighborhoods, Block Grant monies were diverted from downtown to neighborhood development, and the city council majority now reflects many of COPS' views. All of this occurred in spite of the fact that COPS does not formally endorse candidates.

However, cases such as Chicago and Cleveland demonstrate that when other winds in the political climate blow unfavorably, neighborhood people may be left with votes but little additional influence. Neighborhood organizations generally keep politicians and parties at arms length, allowing candidates to court the neighborhoods through neighborhood platforms, neighborhood hearings, and neighborhood based party structures.

In conclusion, participation in politics has developed leadership skills and provided mobility for some groups, but such participation has real limitations as a means of neighborhood capacity building. Most city elections are still structured in ways that impede responsiveness to neighborhoods. In some places, the head of an agency or bureau has more power than a city councilman. Countywide and regional governments are among the least conscious of neighborhood concerns. Fewer people have faith in the potential of parties and the intentions of elected officials to respond to neighborhood needs.

In addition, the potential for gaining equity is limited in a system that tends to serve lobbies, moneyed interest groups, and unseen power structures. Other forms of participation are needed to press traditional political institutions to become more responsive.

Federally Mandated Citizens Participation

> "The Citizen Forums? They're a joke, a sham. We only did it because of regulations—we thought it would look good on the forms. They don't represent anybody. The council would listen to groups like the Birmingham Coalition before they'll take the Forum seriously."
> A city official, interviewed during a Commission case study.

The forms of participation in governance to be discussed in this section include all opportunities for citizens to review or engage in the decision-making process because federal legislation, regulation, or administrative guidelines require it.[3] In the last fifteen years, the number of federal mandates for citizen participation has multiplied. A reference guide published by the Community Services Administration in 1978 catalogued 226 such mandates in federally assisted programs.[4] Only 36 of them were in existence before 1964. A recent interagency memo reported that at the end of 1975, more than 45 federal agencies employed 1,267 advisory committees with 22,125 positions. In HEW alone, there are more than 90 programs requiring some form of citizen participation, with almost 4,000 citizens serving on 338 advisory committees.

Citizen participation has widened in scope as a result of parallel pressures from public administrators and citizens. In addition, the increased complexity of government has created the need for a new dimension of democracy that is "participative" rather than "representative."[5] Federal administrators have sought citizen "input" in order to secure a power base (e.g., Farm Services Administration), or to gain popular acceptance for a program (e.g., Selective Service), or to insure that local officials do not preempt the program recipients (e.g., Community Action Program).[6] On the other hand, citizens have been frustrated by government unresponsiveness. They have felt the need to monitor administrative agencies; they have tried to initiate reforms through mandated participation as well as independent action.

In addition, the complexity and massive quantity of federal activities have forced elected officials to delegate a great deal of "lawmaking" to others. Congress, for example, has little time for digesting and refining complex social, economic and technical matters, so the legislators rely on relatively broad mandates. The remainder of the lawmaking process, which frequently may be most of it, is left to bureaucrats to work out by themselves. Therefore, if citizens want to influence this multitude of "delegated legislation,"[7] they must participate in post-legislative governance.

Unfortunately, most mandates for participation have brought meager opportunities; there have been very few affirmative actions to stimulate involvement. The Administrative Procedures Act (APA), passed in 1946, is generally considered to be the first federal mandate for citizen participation.[8] The Housing Act of 1954 was the first major federal law that called for citizen participation in urban policy. Neither of these fostered widespread involvement, as the APA merely required that agencies notify the public and allow for formal comment during rule-making. The Housing Act, designed for Urban Renewal, spawned "blue ribbon" committees, composed mainly of business and civic leaders. Often the groups that were least represented were most affected.

Among the few exceptions to the rule of minimal participation have been the Economic Opportunity Act's call for "maximum feasible participation" in 1964; the Demonstration Cities and Metropolitan Development Act's mandate for "widespread participation" in 1966, and the Housing and Community Development Acts of 1974 and 1977, which guaranteed information and hearings that led many cities to initiate citizens advisory councils.

Federally mandated citizen participation is clearly here to stay. Several flaws must be corrected before it can become a fully effective vehicle for governance. A device is needed to build the capacity of neighborhoods rather than draining it. One obvious problem is remoteness. For example, the Sunshine Act of 1977 requires about 50 federal boards, commissions, and other agencies to open their meetings to public observation. The Federal Advisory Committee Act of 1972 provides for national advisory bodies to federal agencies. However, these opportunities are accessible primarily to corporate lobbyists who join national issue organizations such as the Sierra Club or Common Cause.

Perhaps of greater importance is the increasing role played by regional planning agencies and councils of governments. From 1964 to 1969, the number of federally-assisted areawide planning programs increased from 9 to 36. Today, the number is approaching 50. In 1973, these assisted programs included 247 air quality regions, 481 law enforcement planning regions, 198 economic development planning districts, and 501 manpower planning areas. A 1975 study prepared by the city of Seattle stated that any metropolitan area might have as many as 20 federally sponsored bodies conducting multi-jurisdictional planning. In addition to the proliferation of regional planning agencies, the number of regional councils of government involving elected officials has increased as well. Between 1963 and 1973, the number rose from 20 to over 600.[10]

In many instances, regional planning agencies and the councils of governments work jointly with a citizens advisory board. However. these bodies, which make many decisions crucial to neighborhoods, are far removed from the average citizen. Many neighborhood people are unaware of their existence, much less their importance. Most neighborhood organizations, dealing with immediate, visible issues, are ill equipped to get involved at the regional level, where issues tend to be more long-range and more remote.

One reason is that the areawide bodies work in a state of chaos. Although OMB Circular A-95, implementing the Intergovernmental Cooperation Act of 1968, established a policy of coordination and cooperation among planning efforts, the Advisory Commission on Intergovernmental Relations reported in 1977 that many programs were not interrelated, that federal agencies often ignored the designated comprehensive planning agency, and that states sometimes disregarded their own planning subdivisions in implementing federal programs.[11]

In a prototypical solution, 27 city and town governments in the Hartford area are attempting to coordinate their efforts through the Capital Region Council of Governments (CRCOG). CRCOG consists of a Policy Board of

Mayors, a Regional Planning Commission, and a Regional Forum of citizens. CRCOG is also the A-95 clearinghouse. These efforts add order to the planning and decisionmaking process, but it is still remote to most neighborhood people.

Suggestions to reduce this remoteness, and to improve neighborhood participation in regional governance, came to the Task Force on Governance from neighborhood activists around the country. They included steps to put neighborhood organizations on the A-95 clearinghouse mailing list; to provide technical assistance to neighborhood groups in translating complex technical issues into layperson's language and developing neighborhood proposals for regional plans; to require Neighborhood Impact Statements for projects affecting neighborhoods, and to build-in effective opportunities for neighborhood organizations to participate in areawide decision making.

Citizen participation mechanisms have often been accused of functioning to persuade or manipulate citizens rather than involve them in genuine decision making. A citizen in Seattle recounted how the Department of Transportation had put on "dog and pony shows" before realizing that virtually everyone was adamantly against the construction of highway I-90 and no one was changing their mind. In a publication prepared for a national conference on citizen participation in transportation, one observer has noted that "the planning agency is usually not simply interested in educating the citizens on the issues; the agency is often interested in persuading citizens to accept what is believed to be a good plan." The Commission believes that money is misspent when it is used to persuade citizens rather than to involve them in decision making. It is difficult to identify the precise amounts or the purposes of appropriate spending or of mis-spending in this area.

A Congressional Research Service analysis reported in December, 1978:

> In some instances the funds are buried in the appropriations for other line items. In other cases,citizen involvement funds are identified on grant applications, but these figures are not aggregated program-wide.
>
> Another factor which compounds the difficulty of gathering this information is the decentralized nature of citizen involvement within departments or agencies. Citizen participation activities may be directed and funded by several offices in an agency; very few "Offices of Citizen Participation" exist, and occasionally offices of Citizen Participation" exist, and occasionally offices within one agency do not know what others are accomplishing with regard to citizen involvement.[13]

There have been recommendations to audit the use of all citizen participation funds, and to transfer some of the money to neighborhood organizations independent of agency bias. The Department of Transportation has itself sponsored a series of case studies of "effective" citizens participation.[14] They found that the four most successful cases all involved existing or newly created neighborhood organizations. These structures resulted in the highest level of participation, provided the most representative advocacy, and had a genuinely constructive influence on highway planning.

The history of mandated citizen participation is interwoven with the history of independent citizen action, including protest. The civil rights movement undoubtedly helped to spawn the War on Poverty. The federal mandate for "maximum feasible participation" intensified the pace of community organizing. In addition, the proliferation of independent, issue-oriented advocacy organizations, as well as community controlled corporations, undoubtedly has shaped citizen participation plans of many cities under the Community Development Block Grant program. For example, city officials in Buffalo have helped to create independent community development corporations to implement the program there. This illustrates the most significant breakthrough in mandated citizen participation, involvement in the implementation and monitoring of programs. In some cities, such as Hartford, neighborhood organizations have been asked by city officials to decide where Block Grant money should be spent.

Citizen participation has been most effective when citizens are independent enough to say "no," when they have the capacity for independent initiatives, and when they are able to follow through from planning stages to implementation and monitoring. Citizen participation in governance works best when neighborhoods have the capacity to negotiate for equity.

Many independent groups have been reluctant to participate in mandated advisory boards. They fear that mandated citizen participation will waste time, drain energy and manipulate leadership—all for little gain. The Commission's case studies failed to reveal groups which used citizen participation mechanism effectively, unless the group had already developed power through independent action. Instead, many independent groups go directly to the decision makers, such as city councils, and pressure them for a certain outcome.

Ironically, these independent groups have often improved mandated participation. In New Bedford, Massachusetts, the mandated advisory council had little impact, compared to an independent community organization. The City of New Bedford's 1976-77 CDBG application included projects on the waterfront that would displace poor people in order to build apartments with prohibitively high rents. In addition, sewer construction was proposed that benefited low and moderate income people only by coincidence—that is the sewer project crossed under some of their homes. The Southeastern Massachusetts Advocacy Group fought the city's application to the A-95 review stage. The city was finally forced to reprogram $3.5 million before receiving its CDBG funds. Similarly, in Oklahoma City, a neighborhood project supported by the Urban League was launched against plans to allow the central business district and a medical school to level and redevelop their neighborhood. The protest group soon gained the status of a Project Area Committee, and was recently allocated over $100,000 to develop their own plan for community development in the area.

Some city governments are already predisposed to neighborhood independence. In Baltimore, all Project Area Committees receive technical assistance for developing proposals and monitoring projects. The PACs work with planners and project managers from the Department of Housing and Community Development. The planners are instructed to serve as advocates for the PAC's proposals.

In Atlanta, one valuable form of support for participants and neighborhood capacity building has been technical assistance. Most cities provide it with their own manpower, but this may build another bias into the process. One way to provide technical assistance without bias is to pay community organizations to hire their own staff. For example, the City of Portland contracts with the North Portland Citizens Council to hire a neighborhood coordinator. This coordinator has access to city government through the

Office of Neighborhood Associations, yet she is paid by the Council and so need not fear reprisal if she angers city hall.

Nationwide, the Community Services Administration is currently funding the Working Group for Community Development Reform for a creative technical assistance project. The group has a small central staff in Washington. Successful community organizations or coalitions will receive funds to pay for part time monitoring of local community development spending patterns, programs and decision making processes. The person hired will help citizen groups "understand and influence CDBG decision making."

Clearly, effective citizen participation requires flexibility. Where an advisory board may be appropriate in one city, an existing neighborhood advocacy organization may be a better mechanism for another, and the creation of community development corporations may work best in a third. Using independent groups, where they exist, generates a multiplier effect by tapping both government and neighborhood resources.

The Advisory Commission on Intergovernmental Relations recommended the following:

> "Legislative and executive branches of all governments, when providing in legislative and administrative practice for citizen involvement, exercise caution in (a) selecting the types of situations in which citizens are empowered to share in decision-making; (b) defining the categories of citizens whose participation is needed to assure fair and equitable representation of all significantly affected groups; (c) guarding against administrative agencies' exploitation of citizen involvement for the agencies' own narrow purposes or for the perpetuation of unrealistically high hopes regarding the satisfactions and benefits to be reaped from citizen participation."

In order to maximize the potential of mandated citizen participation, while avoiding overregulation and predetermined, maladaptive structures, some suggest that each federal agency should be required to formulate its own citizen participation plan. The plan would be drafted jointly by government and citizens, with its adoption dependent upon citizen approval. A different structure of participation could be devised to match the uniqueness of each situation.

Mandated citizen participation is both a permanent and a proliferating fact of public life. Unfortunately, most of it has not brought citizens into positions of real power. Its potential for capacity building and equity depends in large part on government flexibility and on a willingness to bring participation truly into the neighborhoods, drawing on independent groups where possible. It also requires built-in participation in the planning, implementation and monitoring of projects, and where appropriate, technical assistance to neighborhood groups.

Neighborhood Sub-Units of Government

Extending the concept of mandated citizen participation, many cities and even a few states have created or recognized neighborhood structures. Commissioner Naparstek, in his study *Policy Options for Neighborhood Empowerment,* describes four types of subunits that are forms of "administrative decentralization":

> (1) Physical decentralization: the devolution of specific services to the neighborhood level for the purpose of efficiency and

> administrative convenience; examples include neighborhood field offices of various service agencies, police and fire stations, and administrative district offices.
>
> (2) Multifunctional services decentralization: location of offices of several agencies in the same community center to solve immediate, short range problems and increase client convenience, i.e., neighborhood multiservices centers.
>
> (3) Mayoral outreach programs: designed to facilitate citizens responsiveness and communication, and to provide citizens with greater access to municipal government; these programs are best represented by "little city halls."
>
> (4) Comprehensive decentralized services: the devolution of decision making power to neighborhood level bureaucrats to promote citizen-government integration and the coordination of services; examples include Neighborhood Cabinets and Managers such as the New York Office of Neighborhood Government.[16]

Related to these decentralization efforts are neighborhood councils. In a report submitted to the Commission, the National Association of Neighborhoods defined the councils according to their major functions of monitoring and evaluating government policy and programs, and serving as channels of "two way communication" between citizens and government.[17] They may deal primarily with physical planning, community development, neighborhood beautification, advising municipal departments, or coordinating social services.

In Commissioner Naparstek's analysis, these structures all have limitations. Both mayoral outreach and decentralized services try to close the gap between bureaucracy and the consumer and to improve city responses to complaints. These approaches are limited by their "top-down" style. The citizen is at the mercy of the city's willingness to listen and respond. The citizen's role is not control, but "feedback." Commissioner Naparstek observed that these structures "actually strengthen existing institutions and policies: by providing an illusion of change they tend to defuse community tensions while simultaneously presenting little threat to internal bureaucratic interests."[18]

The initiative must still originate with citizens. City governments are not in the business of initiating complaints against city hall. For example, one role of the City of Cincinnati's Community Assistance Teams (CATS) is to help community councils find their way through the city bureaucracy. The CATS literature is careful to distinguish the service of "organization development" that the teams provide from street level community organizing and advocacy.

The community relations dimension of administrative decentralization may increase citizens' confidence in government, through personal contact with its employees. Commissioner Naparstek writes:

> The positive result is that line administrators vary their programs from community to community; the negative effect occurs when the neighborhood is "pacified" by a visible (though marginal) impact on the character of the services received. Though the neighborhood may feel better about increased communication with some municipal servants, actual changes in administrative behavior may be negligible.[19]

From their evaluation of neighborhood councils, the National Association of Neighborhoods concluded:

> A closer relationship with city government does not always connote lack of independence, or cooperation of neighborhood organizations by the city, but it can lessen the impact of neighborhood councils as political tools which advocate grass roots neighborhood interests. Independent neighborhood organizations tend to be better suited to that role. Quite often, official recognition of neighborhood councils depends upon criteria establishing strict, non-political and non-partisan guidelines. In a realistic sense, therefore, the political influence of neighborhood councils is highly circumscribed.
>
> There is, however, often a complimentarity between neighborhood councils and independent organizations which enhances the political role of the former. In their relationship to city government, the function of neighborhood councils is most often administrative—that of independent organizations most often political. Neighborhood councils have legal access to a wide range of information and legal authority as they attempt to oversee government activity. On the other hand, independent organizations have greater capability for political advocacy of neighborhood interests, but no legal authority. When the two cooperate, both political and administrative goals are served. In the District of Columbia, for example, the Advisory Neighborhood Commission (ANC) works closely with an independent organization, the Adams Morgan Organization (AMO). There is circulation of leadership between the ANC and AMO. AMO provides a form of advocacy—the ANC a form of government accountability.
>
> Even if their political influence is slight, neighborhood councils do serve several functions which potentially hold the promise of a greater political role for them. Inasmuch as they are organizations dedicated to the preservation and enhancement of neighborhood interest, they are advocates of neighborhood needs. By providing means for intra-neighborhood communication, through newsletters, meetings and elections, they are vehicles for the discovery of the common good of the community. Because of their official recognition, often legally mandated in state, or municipal legislation, they are vehicles for the empowerment of neighborhoods toward neighborhood government. And, by providing residents with access to government officials, they are training groups for the development of new political leadership.[20]

The National Commission on Neighborhoods conducted a number of case studies involving neighborhood councils. The Five Points South Neighborhood Citizens Committee (FPSNCC) in Birmingham, Alabama, was formed after a city council resolution designated Neighborhood Citizens Committees (NCCs) as the official representatives of neighborhood areas. FPSNCC is actually at the middle level of a three tier system for participation in Community Development Block Grant decisions. It supplanted a citizen-initiated organization, the Southside Action Committee, which deferred to the city-initiated organization by abolishing itself. Among other things, FPSNCC worked with other neighborhood citizens committees to prevent the departure of an office Blue Cross-Blue Shield operation, thus preserving jobs in the city. However, the case study revealed that the city-initiated FPSNCC was somewhat less representative of the neighborhood than the old independent Southside Action Committee.

The CATS in Cincinnati provide technical assistance to recognized neighborhood councils, including the Northside Community Council (NCC). NCC has cooperated with city planners to draft a neighborhood plan, to develop skills of governance among a few top leaders, and to stimulate activities such as the creation of a development corporation and of social service agencies. Unfortunately, tensions have mounted between NCC and another organization which has developed a broader base of support through block clubs and issue-advocacy.

In Portland, Oregon, the Office of Neighborhood Associations contracted with the North Portland Citizens committee (NPCC) to hire a neighborhood coordinator and to administer social services. The combined efforts of NPCC, the neighborhood coordinator, the business community, have stimulated projects worth millions of dollars to the neighborhoods. Again, however, the council concentrates on developing top leadership rather than a broad base of activists. It is difficult to gauge NPCC's representativeness.

In 1973, Maynard Jackson ran for Mayor of Atlanta on a "neighborhood" platform which included a neighborhood planning process. In 1974, the Atlanta City Council passed an ordinance institutionalizing neighborhoods into the comprehensive planning system through the creation of Neighborhood Planning Units. A Commission case study in Atlanta revealed enthusiasm for the outcomes. As one resident expressed it, "The relationship developed seems to have been productive on both sides: The current city government has recognized the importance of neighborhoods to the survival of the city and this represents a significant shift from past years."

In conclusion, neighborhood sub-units of government offer a potential for capacity building and equity. Some leaders gain valuable experience, although a broad base of sub-leaders and followers is likely not to develop without an independent community organization. The central limitation of neighborhood sub-units of government today is the lack of independence.

The tendency of many citizens, the longer they participate, is to become "too close" to public officials, losing the average citizen's perspective, failing to hold the city sufficiently accountable. Through these structures, however, valuable capacity building resources, such as technical assistance, may be channeled to channeled neighborhoods. When neighborhood sub-units of government operate with independent neighborhood organizations, there is potential for constructive divisions of labor. The city-affiliated group can deal with "common good" and equity issues and seek city resources. An independent organization can build capacity through leadership and power, while tapping natural networks of human resources. The independent organizations can serve the "special good," through the development of neighborhood power.

Neighborhood Controlled Development and Social Service Organizations

There are a wide range of neighborhood controlled organizations. They include neighborhood economic development projects, local development corporations, housing cooperatives, education programs, day care centers, art and cultural organizations, counseling centers, and business, industrial and manpower development organizations. For example, Jeff Vander-Lou in St. Louis has been involved in child care, elderly programs, services for low income people, rehabilitation of housing, and new housing development.

Some of these organizations have been originated by citizens, others came from Ford Foundation "Gray Area" programs, others from the anti-poverty programs of the 1960s. A paper written by Barnaby Zall for the National Commission on Neighborhoods identifies components of one type of neighborhood controlled structure, the community development corporation (CDC):[21]

1. a corporate structure, with professional staff, including planning and administrative personnel;
2. community participation, ownership, and control; and
3. a balanced program of business, community and institutional development activities conducted according to a long-range, comprehensive plan.

Of course, many neighborhoods have simpler versions of this prototype, an organization providing perhaps a single service or development activity. Zall adds that while most of them are nonprofit corporations, a significant number are profit-making or cooperative corporations. The differences usually reflect relevant state laws, community sentiment, tax considerations, and the character of the development plan.

The corporation hires a professional staff to prepare and execute a development plan. The staff must be able to prepare the plan accurately and expertly. Once the initial plan is drafted, the planning staff will focus on interim planning, while continually up-dating the overall program. Other staff work will be needed in administrative and managerial departments for the locally controlled corporation; business and community development departments that may acquire and operate subsidiaries; and specialized project departments, such as those dealing with housing or employment.

Community Development Corporations may adopt a range of corporate arrangements; a CDC may include holding companies, subsidiary corporations, allied non-profit corporations, and federations of other community organizations. The East Los Angeles Community Union (TELACU) is an example of a mature, diverse CDC. TELACU was started as a project of the United Auto Workers Union in 1968. It has emerged as one of the fastest growing and most effective CDCs in the country. The non-profit portion of TELACU is relatively small, since the group's subsidiaries are owned by its profit-making holding company. Even the planning staff has been incorporated as a separate, profit-making organization—the Community Research Group. TELACU's staff includes human resources (employment), social services, and economic development and business development divisions. TELACU projects span the spectrum of community involvement: from bringing musicians from Mexico for bi-weekly traditional concerts to constructing a $32 million industrial park; from replacing an old rubber manufacturing plant to starting a thrift and loan association which reverses the typical cash flow in a low-income neighborhood by opening branches in wealthy suburbs and bringing the funds back to the barrio.

Community participation is another cornerstone of these corporations. The neighborhood owns them and in fact runs them. The benefits flow directly to the community. The ultimate aim of the planning and development activities is not profit, but the solution of community problems.

In their business activities, development corporations are like many other venture, investment, and management corporations, except for their community control. Direction from the community allows it to forego some profits in order to serve community-oriented goals, such as higher employment or management training for residents. Profits of subsidiaries are also recycled to the community on the basis of community needs rather than being distributed as dividends.

When the neighborhood project takes the form of a CDC, they usually issue some type of direct participation instrument, sometimes called stock (in profit-making corporations) or memberships (in non-profit corporations). These stockholders or members share directly in the governing of the CDC, usually through election of the governing Board of Directors. In some cases, part of the Board is appointed by local organizations. Usually, businessmen and local leaders are asked to be on the Board as well. Board members almost always have some familiarity with CDC activities, so that the Board is in a position similar to most private corporate governing bodies.

The East Boston Community Development Corporation, located in an ethnic Italian section of Boston near Logan International Airport, is an example of a profit-making CDC which issues stock to residents. Residents may buy a lifetime voting share of stock for a minimal price. The 9,000 shares of outstanding stock represent most of the families in the community. EBCDC elects its Board each year, and the competition for the seats is fierce. As a profit-making corporation, EBCDC could distribute its corporate profits to its shareholders, but instead uses them for community projects and future ventures. The widespread participation of residents in the CDC is based both on a desire to do something for the community, and on the prestige of leadership in a community institution.

According to its development plan, many development organizations engage in business, community, and institutional development. Unlike many single-purpose agencies, a CDC may conduct such programs either simultaneously or in combination with each other. This permits the corporation to minimize duplication, to spend each funding dollar for the most impact at the least cost, and to integrate the results of each project with those of other projects. For example, combining business and employment projects in a job training program not only provides training at a lower cost (because part of the cost is taken over by the business), but also gives the trainee an opportunity for permanent employment in the private sector. CDCs now send their business development staffs to the same schools and seminars that private firms have always used.

Locally controlled development projects offer to neighborhoods opportunities for growth and revitalization. Community-based economic development is not a quick or easy solution. But it can produce long-term, large scale development, directed and owned by the neighborhood. As the need for doing more with less money grows, the approach of combining resources through a comprehensive development plan will become more infuential in neighborhood development.

Of course, there are some limitations to the potential for these local projects to build equity and capacity. According to Janice E. Perlman, writing in *Social Policy*, "Because the staff generally has greater expertise than the rank and file, they tend to dominate when important decisions are made. This may result in increasing the residents feelings of inadequacy and powerlessness that the organization is supposed to combat."[22] In addition. Ms. Perlman also suggests that when neighborhood leadership becomes deeply involved in the delivery of human services, there is little time and energy left to involve and train new leadership. "As the energies, resources, and leadership skills of the organization are focused on 'hard' programs, the role of the 'soft' community base tends to wither away altogether."[23]

These organizations may trade away an emphasis on leadership development for a primary purpose of generating services and economic resources. However, most neighborhood development projects are not entirely self supporting. They rely heavily on funds from the federal government and private foundations. Because projects are usually located in the most marginal sectors of the economic community, are often undercapitalized from the start, with their informing ethic leading them to demand minimum payments from the community, CDCs often fail to reach a break even point.

In terms of human resources, CDCs vary in their ability to involve large numbers of people. Their employees are often drawn from the unemployed, so some job skills are developed. I.B.A. in Boston, studied by the National Commission on Neighborhoods, successfully attracts a large number of community residents to its annual meeting. The corporation is genuinely controlled by the community. On the other hand, many projects elsewhere seem more willing to sacrifice democratic involvement.

A strong advantage of neighborhood controlled development projects is their equity-building capacity to serve the "special good" of their own neighborhoods. To the extent that they succeed in building an economic base, employing neighborhood residents and involving people in self governance, the neighborhood acquires greater capacity and clout in dealing with other sectors of the city. This potential is maximized, however, when the community controlled corporations exist alongside issue-oriented advocacy organizations. Together, they can maximize skills, financial resources, and equity in low and moderate income communities.

Neighborhood Organization and Historic Preservation[24]

The field of historic preservation has changed tremendously since the creation of the National Trust for Historic Preservation in 1949. In 1966, passage of the National Historic Preservation Act pledged federal matching grants for historic preservation, authorized an expanded National Register of historic properties, and provided a measure of legal protection for registered properties through the Advisory Council of Historic Preservation. In the last several years, not only has the professional field of historic preservation changed its orientation but, more importantly, private individuals and historic preservation organizations have also changed.

On September 28, 1978, the National Commission on Neighborhoods co-sponsored with HUD a two-day workshop on "Neighborhood Historic Preservation Without Displacement." Seven neighborhood associations were invited from across the country because, in different ways, each dealt with the positive and negative factors that emerge from a neighborhood with special historic or architectural qualities. Each neighborhood group dealt in varying degrees and combinations with the problems of disinvestment, stabilization, and reinvestment.

The individual neighborhood groups had reached different points of recognizaing and utilizing their historic qualities, ranging from the Birmingham Neighborhood Association's recognition of the value of the "beautiful wooden details" on their Victorian houses to others having already surveyed and designated all or parts of their neighborhoods as historic districts. Many mechanisms for financing their preservation activities had been established, from Community Development Block Grant funds, HUD 312 money and 202 HUD money, to the more traditional Department of the Interior grants-in-aid, and donations of facade easements. The seven groups included the Chinatown Neighborhood Improvement Resource Center in San Francisco, California; King William Neighborhood Association in San Antonio, Texas; Butcher's Hill Neighborhood Association in Baltimore, Maryland; United Manchester Redevelopment Committee in Pittsburgh, Pennsylvania; Soulard Neighborhood Improvement Association in St. Louis, Missouri; Fox Point Neighborhood Association in Providence, Rhode Island; and the Birmingham Neighborhood Association in Toledo, Ohio.

George and Eunice Grier, in a report written for HUD, in 1978:

> "Displacement, an old problem, has come to the fore again in connection with a relatively new phenomenon variously called 'gentrification,' 'urban reinvestment,' and 'private residential revitalization.' Our reconnaissance indicates that reinvestment as such, while quite widespread and growing, is probably a minor contributor to the overall displacement problem...The total displacement problem, however, appears to be a large and rapidly growing one. Reinvestment-related displacement is important to treat because its high visibility makes it a target for emotions triggered by the larger problem; but it should not be mistaken for that problem. Displacement can be triggered by many conditions. It can occur in neighborhoods that are declining or undergoing disinvestment, as well as those that are on the upgrade. Displacement can take many forms."
>
> Urban Displacement: A Reconnaissance,
> Revised March, 1978, p. III

The Griers' report adds that timing is very critical to the prevention and prediction of displacement. Once the forces are in motion, displacement is very difficult to stop. Frances E. Phipps noted that the chief cause of displacement no longer appears to be major public programs but, rather, the neighborhood revitalization movement occurring essentially within the free market without the stimulus, intervention, or even attention of public policy.

Some have described historic preservation as a neutral tool. In most instances to date, it has contributed to the displacement problem. However, the groups attending the Commission's conference demonstrated ways in which historic preservation can be applied by neighborhood residents for their own benefit.

Many of the seven neighborhood historic preservation groups find themselves in the situation where they know displacement is a problem and that it's difficult to grasp. However, none of them is going to leave their neighborhood nor stop taking advantage of their heritage. Instead, they are designing strategies which deal with these problems.

For example, St. Louis' Soulard Neighborhood Historic District developed a strategy to take advantage of government programs. In addition to being on the National Register, the area is a City Historic District. The latter called for special efforts on the part of the city to prevent displacement. After considerable broad-based resident input, they developed the following agenda to prevent displacement and preserve the economic mix of residents in the area:

A portion of the area has been designated a Neighborhood Strategy Area with a set aside of 120 substantial rehab Section 8 units to be developed through the conversion of an unused hat factory; two-hundred Section 8 existing units will be developed in cooperation with existing landlords; one-hundred units of infill 235 HUD housing will be constructed on city owned lots in the area for families; in addition, a tax exempt neighborhood corporation will develop the above units with an architectural firm and an experienced developer. The proceeds from the development will be used to fund needed social services and job development activities on a permanent self-sustaining basis. The long term low-income residents of the area are becoming *true* partners in the preservation of their area. Without the historic character of the area it is unlikely that the necessary resources for this partnership could have been obtained.

The United Manchester Redevelopment Committee used historic preservation to attract home buyers to their low income, black section of Pittsburgh. Stanley Lowe, the Executive Director, utilizes the historic and architectural qualities of Manchester in advertising and marketing the neighborhood. For example, advertisements have included a picture of a Victorian house and a group of young and old, black and white people standing on the front steps with the captions, "Renewal of the Spirit in the Place" and "We Live in Manchester." The Neighborhood Association, in cooperation with the state and city historic organizations, is planning a conference on "Historic Preservation in the Minority Community." The conference is designed to assist community organizations and members of various racial minorities to understand and take advantage of the historic preservation movement in America. The Manchester neighborhood felt that due to a lack of understanding and an unfamiliarity with the available resources, many minority people believed the preservation movement was more of a threat than an opportunity. Various seminars are planned that will explore how minority people can take advantage of historic preservation rather than experience it as one more removal program. They plan a seminar on "Values" which will explore the ways to express the value of the neighborhoods and areas where minority people live. This seminar will look at a people's sense of self and historic preservation as an alternative success symbol, as a strategy for developing a sense of self worth, and as an attack on apathy.

Like any tool, the historic and architectural qualities of a neighborhood can be constructive or destructive. The people using this tool must be organized and must devise strategies to control complex forces in a neighborhood rapidly becoming more attractive to outsiders. Some reports have argued that historic preservation or the designation of a historic district has been the cause of displacement. Obviously, the problem is not that simple. To ignore the historic qualities of a neighborhood and the advantages of historic designation is like "throwing the baby out with the bath water."

Issue-Oriented Advocacy Organizations

> "Change means movement. Movement means friction. Friction means heat and heat means controversy. It is that simple: there can be no meaningful significant program for change without controversy. It is naive to assume that the ills which plague our population, ranging from discrimination to unemployment, can be dealt with without any social change...There can be no darker, more devastating tragedy than the death of man's faith in himself, in his power to direct his future."
>
> Saul Alinsky, May 27, 1963

Issue-oriented advocacy organizations have developed a form of independent participation in governance under conditions where other institutions fail to meet community needs. Janice Perlman describing the process of "Grassrooting the System," wrote:

> The seventies are spawning a plethora of grassroots associations involving local people mobilized on their own behalf around concrete issues of importance in their communities...there are groups focused on a single issue (such as the Co-op City rent strike, the women workers organizations, or the Brown Lung Association

> in the Carolinas) and those which deal with multiple issues (such as ACORN in Arkansas, CAP in Chicago, and MACE in Mississippi). The groups also range in scope from the neighborhood level to citywide, to statewide, and even multistate. At present there are three multistate, multi-issue organizations in the country, about a dozen stateside multi-issue groups, two dozen or more citywide groups, and hundreds of thousands of neighborhood associations and coalitions. In New York City alone there are some 10,000 block associations. Single-issue organizations number even more. In addition, a support network exists around direct-action organizations, including organizer-training schools, research-action projects linked directly to the organizing efforts, and a national network of communications.[25]

A basic premise of most of these organizations is that institutions are often unresponsive when citizens lack the capacity to exert the power and influence necessary to hold them accountable. When neighborhood residents feel they are not adequately represented in community "power structures," they often form a board, incorporate, raise some money, and hire a small staff of community organizers. Typically, this staff starts to build an organization from manageable units of neighbors—the block.

Block clubs begin with issues immediate to their own turf, then gradually identify concerns which they hold in common with other block clubs. Next, clusters of blocks often work as coalitions. Within a year, the block clubs and the coalitions, along with other voluntary associations and neighborhood institutions may hold democratic, neighborhood "congresses." At each level in this process, democracy is fundamental. Eventually, the staff of organizers has helped to spread an organizational umbrella spanning several neighborhoods.

When the base of power is established, usually after several years, many of these organizations venture to develop and "spin off" other organizations, such as community development corporations or social service agencies. For example, over a period of more than 20 years, the Lake View Citizens Council in Chicago had a multitude of block clubs organized into ten branches. In addition, they created a housing corporation, a legal clinic, a health center, and a child care center, not to mention numerous other organizations generated through the momentum of organizing.

Bishop Flores of the Diocese of San Antonio spoke to members of COPS at their first convention:

> "You are here today not as supplicants with downcast eyes,not as welfare recipients, not as beggars; you are here as equals, as responsible, law abiding, tax paying people. You are a people that, with your sweat, have helped shape this country, this state, and this particular city. You seek no special favors. You seek a just share of your tax monies to have a decent community."[26]

The fundamental technique of this type of organizing is to build internal leadership. The capacity for leadership is developed through a series of graduated experiences mobilizing people, running meetings, developing relations with the press, confronting institutional decision makers, and negotiating to obtain goals. The organizer's role involves planning, "doorknocking," talking, doing research, helping to identify issues, and developing the leadership potential of residents. Once again, the focus is on neighborhood capacity building on a democratic base of power. In neighborhoods without the financial and skill resources that endow affluent areas with the latent capacity to deal with a crisis, community organizations must rely on human resources. Where the business community might exert its will through economic leverage, poorer communities must rely on the power and pressure of many people. Confrontation in numbers becomes an important tactic; and since the numbers must be lost if the momentum of organizing is lost, community groups continually move from smaller issues to larger ones, from short-run issues to long-run issues, from simple issues to complex issues.

Issue-oriented advocacy organizations, compared to the other forms of participation discussed in this report, have the greatest potential for developing capacity in terms of leadership and power. The entire organizing process is designed to develop the leadership skills of neighborhood residents. The leadership skills which are emphasized include the ability to identify issues, to conduct research, to develop solutions, to analyze the elements of the "power structure," to plan and run meetings, to engage in fundraising, to speak publicly, and to manage, organize, and utilize existing resources such as voluntary associations.

For example, the National Commission on Neighborhoods conducted a case study of the Cherry Hill Coalition, which organizes in the Central District of Seattle. The Central District includes blacks, Italians, and Asians. The area has a myriad of community organizations, many of them carryovers from the 1960s. The community was fragmented and demoralized until the Cherry Hill Coalition started organizing in late 1977. Starting with a sponsoring board of community leaders and clergy, along with two VISTA volunteers, three existing neighborhood councils, and a priest-director, the Coalition attacked the major threat to the area, institutional displacement. Hospitals, a bakery, and an armored transport company were expanding onto residential land, resulting in congestion, noise, pollution, and an increasing apprehension that families would soon lose their homes. The Coalition organized against these institutions and the number of Coalition groups rose from three to eleven in nine months. Physical improvements, community optimism, and new leadership followed the tide of organizing.

In terms of financial resources, most issue-oriented advocacy organizations operate on a shoestring. According to case studies conducted by the National Commission on Neighborhoods, the typical budget of an advocacy organization falls in a range between $60,000 and $100,000 a year, as opposed to the $250,000 to $2,000,000 for community development corporations. However, advanced issue organizations often initiate development and service projects, which they "spin off" to operate separately. Churches have provided most of the initial funds to initially finance issue organizations. Because they value highly their independence, these organizations have been reluctant to accept government funds. One city tried to control an issue organization by withholding its CETA positions after the organization fought city hall on a tax issue. Generally, residents and organizers agree that the funds for organizing should be raised within the community.

Issue-oriented advocacy organizations may be poor, but they often win resources for their neighborhoods. For example, the Lake View Citizens Council in Chicago marshalled political support in 1977-78 to obtain community development money for business revitalization, parks, a youth center, street improvements, a tot lot, and a senior citizens center.

Another advantage of issue-oriented advocacy organizations is that they draw on existing human and community resources. They often bring various existing groups and leaders into one organization. They build on voluntary associations and natural networks of people, relying on traditional leaders, training new ones, and generating a "multiplier effect" by rotating leadership among different sectors of the neighborhoods. Finally, organizations such as PACE in Providence, R.I. have intentionally structured themselves to crosscut neighborhoods with different racial and ethnic compositions. This brings groups together, united in common interest, that otherwise might not associate, or might even conflict.

In terms of equity, case studies conducted by the Commission indicate that these groups base their organizing on self-interest. The broad base of involvement is possible because there are tangible rewards available to participants, including improvements on their own streets and blocks. The equity question, therefore, is answered by serving "special good" rather than consciously seeking the "common good." By building the capacity of individual neighborhoods, organizations move into positions of greater parity and negotiate power with other neighborhoods, other institutions, and city government. In addition, racial and ethnic divisions are often resolved through coalitions that focus on economic rather than attitudinal problems.

Issue organizations are often criticized for stridency, for confrontation, and for occasional isolationism. It should be noted that low and moderate income neighborhoods often have few resources other than their numbers and their voices. In addition, the organizing process stresses leadership development, including skills that may be issued at all stages in the group's life, from advocacy to program implementation. After they have used those to acquire a measure of power, the organizations often turn to community development and more permanent relationships with local units of government. Often, a combination of approaches, suiting a unique situation, maximizes capacity building and equity.

Concluding Observations: Tradeoffs in Participation

Each form of participation in neighborhood governance has advantages and limitations. The traditional process, through elections and political parties, is the foundation of the democratic system. That process, however, has often been unresponsive to neighborhood needs, partly because of its centralized structure, partly because of the decline of party influence and the rise of interest groups, partly because some city officials are losing control over their own bureaucracies.

Mandated citizen participation, since it is often citywide or regional in scope, has some potential for providing equity through its broad perspective. Yet, the impact of citizen participation has been minimal to date. Once again, a major problem is structure. Participation mechanisms usually do not operate at a neighborhood level and they depend upon government resources. In addition, they rarely have much impact. This lack of independence and power makes it difficult to develop community resource and hold government accountable.

Neighborhood sub-units of government have much of the same potential and many of the same problems as other forms of mandated citizen participation. They bring governance to the neighborhood level but they are often too close to city government to play a truly independent role.

Neighborhood controlled corporations and human service organizations have a number of advantages. They are based in neighborhoods; their boards are controlled by neighborhood people; and they build economic and service institutions within the community. They are tailored by neighborhood people to suit the needs of the people. Still, most of them continue to be financially dependent on outside resources. Moreover, they rarely generate widespread participation in governance, except perhaps at an annual meeting.

Issue-oriented advocacy organizations may not be appropriate to affluent communities with many capacity-building resources, but they are vital in many low and moderate income neighborhoods. These neighborhoods often lack financial resources, leadership with citywide influence, and the capacity to exercise power. Without economic clout, and without any "strings" to pull, they have to depend on their single greatest resource, numbers. When organized, human and community resources can be used to demand equity and to negotiate for other resources.

The limitation of issue-oriented advocacy organizations include a certain narrowness in scope and a concentration on a local "special good." Nevertheless, the independent advocacy organization has great potential for building the capacity of neighborhoods. It is the most direct, most effective mode of participation in governance within the command of low and moderate income people. If these organizations can build capacity through developing leaders, organizations, and power, they can build coalitions and join in effective partnerships. With parity in strength, partners can govern with equity, distributing resources in ways that benefit both the "special good" and the "common good."

The National Commission on Neighborhoods believes that all these forms of participation have important purposes. Neighborhoods are diverse in character and different organizational structures and combinations are appropriate to different situations. In many instances, several types may exist within the same city or neighborhood at the same time. Some organizations may be hybrids or blends of more than one type. The effectiveness of such hybrids often can be much greater than that of one organization standing alone. In general, the single most resource-beneficial form for both capacity building and equity is the issue-oriented advocacy organization, followed by other independent groups, such as community corporations and human service organizations. The next sections of this chapter will focus on these groups, discussing methods for marshalling skills and financial resources.

Building Skill Capacity For Governance: The Role Of Different Sectors

The case studies conducted for the Commission provide concrete illustrations of how residents can act together to improve their neighborhoods.[27] A consistent theme of the case studies was the importance of voluntary activities, which included the numerous hours contributed by community leaders and residents, fundraising efforts such as dues and donations, and contributions of staff or facilities by local church groups or private welfare agencies. These voluntary activities are the essence of citizen participation. The appropriate role of actors outside the neighborhoods should be to stimulate rather than to thwart or to control such activities.

These voluntary activities may be referred to as the community sector, the collection of citizens and institutions that make significant contributions to neighborhood life. The importance of the community sector is manifest in many ways. For instance, municipal officials know that when residents no longer sweep their stoops or take care of their immediately surrounding sidewalks, no amount of municipal sanitation service can keep the neighborhood clean. Similarly, residents usually must consider the need for housing repair. Such efforts, enhanced by voluntary institutions, business organizations, and social welfare agencies constitute the community sector. The contribution of this sector can only be measured when municipal or federal services have to replace goods or services previously provided at this level. This replacement tends to be both more costly and less effective. As a long-term goal, neighborhood policy should promote a viable and healthy community sector, and not displace it with government-directed efforts.

Community organizations are a major set of institutions in the community sector and are the main vehicle through which government can support that sector. For this reason, the Commission carried out 45 case studies to determine how effectively these organizations operate and how they can best be assisted in the future.

The case studies showed that, regardless of the diversity among community organizations in membership, structures, stated objectives, and types of neighborhoods, the work of such an organization can directly benefit its immediate participants and the entire neighborhood. Time and again in the case studies, participants reported satisfaction that changes in the neighborhood had been achieved and stated their conviction that the very existence of the organization instilled greater confidence in the future of the neighborhood. One leader described his area as "a neighborhood waiting to die, until we started organizing." These benefits of attitude and spirit cannot be overlooked, even though they may be difficult to assess. The opportunities to participate in an organized community effort will provide individual rewards and will improve attitudes toward citizenship that eventually will have impacts far beyond the immediate activity of the organization.

At the same time, the case studies also offered ample evidence of specific quantifiable neighborhood improvements brought about by community organizations. In some cases, the organizations had engaged in readily accomplishable tasks, such as street beautification or cleaning. In many cases, however, the community organizations were operating substantial services—for example, health clinics and family service and housing centers—and were confronting major issues such as discriminatory real estate practices and redlining.

The Commission does not necessarily believe that any single community organization, in spite of the ample evidence of such benefits, should survive on a permanent basis. Community organizing and the work of the community sector are dynamic enterprises in which specific organizations may come and go with changing needs and populations. What is essential is that at any given time and place, residents have the opportunity to join together in effective, independent organizations.

Nor does the Commission believe that any single organization should necessarily be the sole representative of a single neighborhood area. Often there should be several organizations in the same area, each serving a different constituency and set of needs. Again, the goal should be to facilitate the emergence of as many organizations as citizens need and will support.

Under these conditions, the appropriate role of the federal, state, and local governments, as well as that of the private sector, is to stimulate and facilitate the development of community organizations in a manner that:

- permits the diversity of structures and operations seen, through the case studies, to be important to serve the diversity of local needs;
- gives a community organization the flexibility to adapt to changing

conditions and to focus on different problems or issues over the time span of its life history; and

- promotes voluntarism in the form of sweat equity, in-kind contributions, continued use of donations and membership dues, and support from private organizations such as churches and business groups.

The relationship between the community sector, mainly neighborhood organizations, and other sectors, specifically city government, state government, federal government, and private institutions, will be discussed in terms of capacity. Each sector has the potential to help translate human and community resources into genuine capacity by providing skills and financial resources.

Skills, as we already noted, are defined to include leadership, management, organization, and technical competence. We will turn first to skill capacity.

Role of City Government

Chester Haskell of the University of Southern California has stated the often unrecognized fact that a pre-condition to neighborhood viability is a minimum level and quality public services such as police and fire protection, health, and sanitation services and recreational facilities.[28] Often defined as the primary role of city government, the delivery of such services must be appropriate to the needs of the community in order to be effective.

Perhaps the obstacle most cited by city officials and citizens alike is the difficulty of dealing with bureaucratic tangles. Compounding that problem are governmental structures weighted against people at lower levels of education and income. Capacity to deal with the "system" is distributed unevenly and inequitably. Those people depending on the system the most are the same people who have the fewest resources and the least skills to influence the system.

There are substantial variations in the degree and quality of services in different neighborhoods. It is the classic case of the rich getting richer and the poor poorer. Residents of the older areas, needing greater fire, police and sanitation services usually do not receive an equal level of services. The failures to provide adequate services result in an accumulation of garbage and trash, a near plague of rats and other pests, blocks of unrepaired roads and rows of broken streetlights, decrepit and overcrowded schools, fire hazards, and deteriorating sewage, water, health, day care, and recreation facilities.

There are several causes of city governments' frequent incapacity to respond to neighborhood needs. One relates to leadership, style, and orientation. For example, the city of Baltimore has recognized that government's capacity to accomplish neighborhood revitalization increases with the capacity of neighborhood organizations to initiate, execute, and sustain revitalization efforts. Baltimore has had three successive mayors sensitive to the neighborhoods. The community's development administrators have been innovative and flexible. In Baltimore, it is as fashionable to support the Citizens Planning and Housing Association as it is for other cities to support their symphony.

The case studies conducted by the Commission highlighted the value of good leadership in city hall. Cities such as Baltimore and Portland, Oregon have strong, consistent mayoral support for creative, responsive experimentation by civil servants. In Hartford, the leadership of councilman Nicholas Carbone has led to innovation and versatile approaches to neighborhood concerns. The key to "neighborhood competent" city agencies is flexibility. Cities cannot serve neighborhoods effectively unless programs can be adapted to diverse needs and networks in different neighborhoods. In Baltimore, there are at least six different housing rehabilitation programs which can be used separately or in combination. Some of the options have been packaged to achieve goals beyond housing preservation, such as home ownership. In Portland, the city's Office of Neighborhood Associations can contract for a project directly with the staff of a neighborhood office or can fund community organization to hire staff for the same project. This flexibility allows the city to make maximum use of the existing independent groups which are most committed to the neighborhoods.

Neighborhood competent government often builds incentives into program structures to stimulate volunteerism. Several cities have used the Mott Foundation's model, Stimulate Neighborhood Action Program (SNAP). Cincinnati received a Mott Foundation grant to increase funding for neighborhood councils that developed programs involving more residents. Baltimore set aside a million dollars of its Block Grant allocation to fund experimental or exemplary projects of neighborhood organizations. Neighborhood-competent government is able to support neighborhoods, and learn from them as well.

On the other hand, neighborhood competent government is careful not to overwhelm community organizations with too many program commitments and dollars. Short term program gains can turn into long term losses of capacity by draining leadership, exhausting resources of spirit, and fostering a dependence on external factors. One neighborhood activist in Seattle feared that the city would "help the neighborhood groups into oblivion", by flooding them with assistance and programs.

In addition to being creative and flexible, neighborhood competent government must be structurally adapted to neighborhoods. In general, this requires a combination of agency consolidation and decentralization. For example, all city housing and community development programs and powers that could affect neighborhoods should be consolidated under one agency. Fragmented authority perpetuates bureaucratic rigidity and multiplies problems of coordination. Consolidation increases municipal capacity to simplify procedures, to identify and fill gaps in programs, to concentrate and broaden staff expertise, to shift staff according to immediate program needs and funding availability, and to implement innovative combinations of programs. Such consolidation can be vital to neighborhood development. Because neighborhoods differ, programs must be blended accordingly. The diversity of neighborhoods calls for the opposite of a fragmented bureaucracy. Concentration of authority can clarify political accountability, empower elected leadership, and facilitate bureaucratic responsiveness to particular neighborhood needs.

Consolidation is not an end in itself, but a start toward government by and for neighborhoods. An equally important step is decentralization, the delegation of power and functions to field offices and neighborhood groups. In addition, where neighborhood organizations exist, city government can enhance both its own capacity and that of the neighborhood organizations by delegating program responsibilities to them. Decentralizing and contractual delegation are means to realize unique opportunities and to adapt to neighborhood dynamics.

Consolidation, decentralization, and contractual arrangements with neighborhood organizations all have the potential to build city capacity to respond to neighborhoods, as well as the neighborhood's capacity to hold the city accountable and to initiate solutions on their own. The potential can be lost if reorganization coincides with political boundaries instead of neighborhood boundaries. This will undermine the neighborhood's ability to respond to the city.

When the climate is supportive, city government and neighborhood organizations can learn a great deal from each other. The city can assume a major educational role, including training and technical assistance for community organizations. Some training of city personnel can take place in the neighborhoods and can include neighborhood people. In addition, the city can build its own capacity by supporting the training of neighborhood leaders who can teach others, and who can form the nucleus for new program structures.

Again, Baltimore provides an example. When Mayor William Shaeffer asked Vincent Quayle of the St. Ambrose Housing Center what the city could do, Quayle replied that his community organization would like to train newly hired city housing personnel working in that neighborhood. Mayor Shaeffer agreed; and now city workers are more attuned to spotting potential problems and more sensitive about what is needed to preserve or revitalize the area.

There are simple mechanisms whereby cities can improve the linkages between employees and citizens. Many cities have established preferential hiring procedures for city residents or requirements that employees move into the city. Yet a person servicing a poor neighborhood still may live in the most affluent section of the city. While living in a neighborhood does not assure that a city employee is better qualified, preference procedures could be established for certain neighborhood-oriented positions. Cities could also establish incentives for newly hired city workers to move into their service areas. The incentives could include pay bonuses, tuition payments for work related courses, or future preferences for promotions.

The "linkage" between citizens and "independent" agencies, such as port authorities, should be improved. Port authorities in New York, Boston, and other areas probably have needlessly bulldozed more neighborhoods than any other government agency within their jurisdictions. In St. Louis, the Commission observed how eminent domain was being misused by quasi-public redevelopment authorities to displace small businesses and people from their neighborhoods. One solution that would instill a degree of accountability would be to elect the board members from within the jurisdiction of the authority, with the elected officials of affected cities or counties appointing the other half. In addition, strong citizen participation provisions should be written into any such agency's authorizing legislation; they should be designed to assure accountability to local neighborhood organizations.

Yet government officials should not rely solely on their political constituencies or on mandated participation mechanisms for the information on which they base their decisions. No citizen participation process authorized or delimited by government can anticipate or encompass all the needs likely to arise in neighborhoods. Neighborhood based resources have been sustained more often by independent community organizations that can articulate their own needs. Traditional citizen participation may be useful in formalizing the neighborhood viewpoint on proposals originated by government, but only if other forms of city neighborhood communication are available.

Overall, city and neighborhood capacities are enhanced when city government has leadership supportive of neighborhoods; when structures are coordinated, flexible and neighborhood focused; when trainings flows back and forth between neighborhood and government, with government providing opportunities for technical assistance; and when linkages are established to insure the accountability of different sectors.

City government should not be allowed to avoid its responsibility. It is essential for neighborhood residents and organizations to keep the pressure on, to hold the city accountable. Neighborhoods can carry out several functions of governance through their own agencies and community organizations, but the question of a formal devolution of government authority to neighborhoods should not be permitted to fade into a distant, secondary issue. The key is reciprocity. When city and neighborhoods both have high levels of capacity, they interact to produce even greater capacity.

The Role of State Government

State governments have rarely developed neighborhood policies and programs. Many states would benefit by establishing their own commission on neighborhoods as a first step. Massachusetts is already in the process of doing so.

Massachusetts and Pennsylvania are outstanding examples of states seeking to function as effective partners in neighborhood capacity building. Massachusetts refused to support a highway that would have allowed development of a suburban shopping mall outside the city of Pittsfield. As a result, the developers agreed to construct the shopping center in downtown Pittsfield, which will produce revenues potentially available for programs and services in innercity neighborhoods. In addition, Massachusetts recognizes community development organizations as legitimate partners in economic development (see Chapter on "Economic Development"). Massachusetts has also revamped its Neighborhood Improvement Program, stabilizing deteriorating neighborhoods through recreational facilities, parks and housing rehabilitation.

The Commonwealth of Pennsylvania examined neighborhood activities around the country, and they concluded the following:

> For three decades state and federal money went to traditional urban renewal programs including acquisition, relocation, demolition, and redevelopment activities. Our look at these activities in mid-1970s found that these monies were perhaps more harmful to neighborhoods than helpful. Housing stock was dwindling, neighborhood social fabric was torn; the result was whole communities becoming unsettled.
>
> They developed a new approach, stressing independent community organization:
>
> Development of a strong neighborhood group to aid in identifying and planning the preservation activities is the important element in the process.[29]

The Pennsylvania Neighborhood Assistance Act of 1976 authorized tax credits up to 70 percent for private businesses to establish projects in impoverished neighborhoods. The projects must provide job training, education, community services or crime prevention, and enhancement of living conditions. In 1977, the Pennsylvania Department of Community Affairs picked five communities for their experiment, providing them with technical assistance and consultation. This was done by DCA's Neighborhood Preservation Support System (NPSS). They stressed comprehensive planning, partnerships between government, residents, and business, leveraging resources, and building local capacities. The NPSS progress report of November 1978 noted the following:

> Our NPSS efforts have shown us that governments and neighborhoods have learned to work with one another. Several of our cities are working on NPSS-type efforts as an outgrowth. Farrell has spawned a new Northwest Gardens Citizens Group, while Harrisburg and Easton are forming new organizations in neighborhoods bounding their NPSS target areas. It shows a new sense of confidence in neighborhood development on the part of cities we have helped.[30]

These efforts are consistent with the Task Force on Urban Policy of the National Governors' Association report of 1978. They noted that the Governors' Association adopted a policy statement in 1977, proposing that states "give particular emphasis to the problems of depressed and declining urban and rural areas, and to the growing fiscal and economic disparities between central city and suburban areas."[31] In this regard, they proposed comprehensive growth strategies that would include investment reform, fiscal reform, and institutional reform. The latter, a key to governance, included recommendations to increase technical assistance to local governments and community organizations; streamline state and local agencies permitting procedures for major job producing developments in distressed areas; create new programs and institutions, such as housing finance agencies, industrial development agencies, and mortgage interest subsidies for urban neighborhoods; provide administrative and legal remedies to redlining and real estate exploitation in neighborhoods; reform fire insurance and tax laws to protect neighborhoods from arson and tax delinquency; and revise building codes, sanitary codes; and other codes to relieve bias against distressed areas.

In the past, cities have often seemed like restricted "children" of states. State legislatures have imposed charter restrictions and other limitations on cities that have prevented the cities from flexibly responding to problems. For example, in Ohio, cities cannot float bonds and use the revenue for housing rehabilitation. Fortunately, states such as Massachusetts and Pennsylvania have attempted to rectify this problem, building the capacity of cities and neighborhoods alike.

By developing broadly based, flexible neighborhood policies, programs, and forms of technical assistance, and by drawing on the existing resources of independent community organizations, states can play an important role in building neighborhood capacity.

Role of the Federal Government

In his 1975 Urban Policy message, President Carter said: "National urban policy must reflect the potentially significant role of the neighborhood in the city building and rebuilding efforts." The President acknowledged that the neighborhood, at least rhetorically, is the core of revitalization efforts. Mr. Carter called for a "New Partnership" of all levels of government, the private business sector, and neighborhood and voluntary organizations. Of course, partnerships are only as effective as their membership. Each must be independent; each must be relatively powerful.

The federal government engages in a number of activities that potentially build the capacity of neighborhoods and neighborhood organizations. In addition to funding, discussed in the following section, many of these activities relate to technical assistance, some available to neighborhood leaders and community organizations, other available to city officials.

ACTION

ACTION was established in 1971, combining seven volunteer agencies. These included the Peace Corps, working outside of the United States, and several domestic programs. Three of them stressed anti-poverty efforts: Volunteers in Service to America (VISTA), the University Year in Action (UYA), and the Action Cooperative Volunteer Corps (ACV). Two involved low income, older persons: the Foster Grandparent Program (FGP), and the Senior Companion Program (SCP). One, the Retired Senior Volunteer Service Program (RSVP), involved senior citizens as volunteers. The Service Corps of Retired Executives and the Active Corps of Executives (SCORE/ACE) provided free consulting to small businesses, nonprofit organizations, and community groups. The National Student Volunteer Program (NSVP) helped develop independent college and high school volunteer programs.

Without question, ACTION has contributed to the improvement of neighborhood life. Although outside resources are not equivalent to indigenous volunteers who build a stable, permanent base of skills and cohesion through their efforts, ACTION vounteerism has helped to facilitate the capacity building process and to temporarily fill neighborhood volunteer needs. In recent years, VISTA has been especially supportive of issue oriented advocacy organizations, providing them with volunteers and technical assistance. This is an important departure from the past, especially through the National Grant Program which funded independent national support organizations to provide increased training to VISTA volunteers.

In May, 1978, President Carter announced his urban policy, the New Partnership. Included were three ACTION-sponsored initiatives to support neighborhood groups. The Urban Volunteer Program consisted of two of these, the Urban Volunteer Corps and the Good Neighbor Fund. The Urban Volunteer Corps would provide a pool of skilled people, such as accountants and teachers, who would give technical assistance to neighborhood organizations, nonprofit groups, and municipal agencies. A local nonprofit agency, such as the United Way, or the local government would be designated to act as a resource center for volunteer recruitment, evaluation of requests for technical assistance, priority setting, matching vounteer skills with local needs, providing expense money to volunteers, and monitoring the program.

The Good Neighbor Fund blends with the Urban Volunteer Corps by providing small grants, averaging $5,000 to $7,000, to be used as seed money for neighborhood initiated projects. The projects will emphasize community economic development and community elderly programs such as community museums, food cooperatives, and social services. The emphasis will be on funding specific projects, not specific types of community organizations.

The third ACTION initiative made by the president was the Street Level Anti-Crime Program (commonly referred to as the Mayor's Anti-Crime Program). This would be a joint ACTION/LEAA venture to involve community volunteers in problems of crime. Efforts would be directed to help those who are especially vulnerable to street crime, such as the elderly, shopkeepers, school children and teachers, as well as meeting the social service needs of victims, witnesses, offenders, and ex-offenders.

If the program is approved, planning grants, operating grants, evaluation, and technical assistance would be funded. Planning grants would be for cities to create a Mayor's Anti-Crime committee to develop a comprehensive citywide street level plan, to document exemplary efforts, to provide plans for mobilizing volunteers, and to establish priorities. Nonfederal contractors would be employed to develop procedures and evaluation plans, as well as provide technical assistance to localities.

In December of 1978, the Commission's Task Force on Governance held a conference, co-sponsored by ACTION, which brought together 120 neighborhood people from 50 cities. The participants strongly supported ACTION's programs to date, and recommended an increase in the number of ACTION volunteers serving in neighborhood organizations and in the level of funding for technical assistance and training.

Econmic Development Administration
The Office of Special Projects (OSP) has been established to carry out the Economic Development Administration's policy to "promote and support permanent employment and income generating economic development activities that benefit the disadvantaged residents or urban neighborhoods and special rural areas".

OSP grants go directly to nongovernmental, local neighborhood based organizations which submit economic development plans for disadvantaged populations and deteriorated areas. A typical purpose, for example, could be to stabilize a deteriorating industrial area to preserve and create minority job opportunities. Whatever form the proposal takes, it must be connected or coordinated with a local government unit, private business or a state/federal program such as Community Development Block Grant. The primary reason for this requirement is that grants are relatively small, and in most instances, must include additional participation in order to be successful. The requirement is also designed to avoid any overlap with other projects with the same goals.

While in theory and, to a lesser degree, in practice, EDA/OSP does provide technical assistance grants to local organizations, the identity of the groups that have generally been funded raise doubts whether the program can be considered, in the strictest sense of the term, a neighborhood program. Organizations such as The Academy for Contemporary Problems, the American Association of Minority Businesses, the Society of Industrial Realtors, the Manpower Education Institute, and the Institute of Cultural Affairs are not exactly local, grassroots organizations. The use of such conduits does little to foster capability within neighborhood organizations. While the expertise of these larger organizations enhances technical assistance, it might be better to fund the community group to contract with outside experts as it sees fit.

The detailed standards of organizational ability applied to EDA/OSP recipients means that only established groups can be viable candidates. While this weakness is mitigated by the Economic Development Strategy grant program, the EDA/OSP program should be more readily available to grassroots groups.

Department of Housing and Urban Development

Community Development Block Grant
The Community Development Block Grant (CDBG) program is funded by HUD, although city governments actually administer the local efforts. The 1978 regulations for the program call for citizen participation and technical assistance:

> To facilitate citizen participation, the plan shall provide for technical assistance. The level and type of assistance determined

> appropriate by the applicant shall be provided to 1) increase organizations, so that they may adequately participate in planning, implementation, and assessing the program, and 2) groups of low and moderate income persons and groups of residents of blighted neighborhoods which request assistance in developing proposals and statements of views.[33]

They may also be directed toward assisting citizens in organizing and operating neighborhood and project area organizations and in carrying out community development program activities. Technical assistance should be provided by specialists jointly selected by the applicant and the organizations and groups to be assisted. It may be provided either by the applicant directly or through arrangements with public or private entities.

Although the level and type of assistance is determined by the city government, these regulations create options for capacity building within neighborhood organizations. Prior to the latest regulations, HUD did not require projects to include technical assistance although most cities provided some.

Department of Housing and Urban Development Discretionary Fund

The Secretary of HUD set aside $19 million of the Department's three percent discretionary fund for technical assistance in Fiscal Year 1978.[34] Among the Secretary's priorities is the development of a clearinghouse for dissemination of technical information to CDBG communities. Another project will develop a series of four-hour presentations on Mayor-Neighborhood Partnerships. Others will offer special technical assistance to nonprofit neighborhood development organizations in the area of financial management skills, seminars on packaging and identifying potential action grant projects, and advanced training for participants in Neighborhood Strategy Areas.

Office of Neighborhood Development

In 1978, HUD established the Office of Neighborhood Development under the aegis of the Office of Neighborhoods, Voluntary Associations and Consumer Protection. Its mission, as described by HUD, is to establish a network of self-help neighborhood development organizations which foster self-determination, and to organize the necessary supports in policy, funding, access to resources and skill development, so that the number of such organizations increases, they develop a capacity to maintain themselves, they engage in successful partnership building with local governments and the private sector. To achieve these ends, the Office of Neighborhood Development attempts to develop networks, and to engage in capacity building and technical assistance.

In 1978, two acts were passed by Congress to further these ends. On October 15, the Neighborhood Self-Help Development Act and the Livable Cities Act were passed as Titles VII and VIII of the Housing and Community Development Amendments of 1978. Both provide technical assistance to build the capacity of neighborhood organizations.

The Self-Help Development Fund, authorized for the first time in 1978, will partially fund projects carried out by advanced development organizations and voluntary associations. They may be used for planning and implementing such things as housing rehabilitation, commercial revitalization, recycling vacant or industrial sites, and energy conservation or weatherization projects. Projects are developed and administered by local residents, businesses, and institutions. HUD will assist organizations in this process of partnership building. They can be implemented only after letters of concurrence are obtained from the mayors of affected cities. All of the assisted organizations are supposed to serve low and moderate income persons; they should be controlled by local residents, businesses, and institutions; and they must be nonprofit entities.

Nonprofit organizations may receive grants or contracts for arts projects that aid in neighborhood revitalization and improvement of neighborhood identity and pride. Eligible projects include historic preservation, adaptive use, landscape architecture, urban design, graphic arts, fine arts, and performing arts. It attempts to enhance the role of art and culture in improving the livability of neighborhoods and stimulating their revitalization. The National Endowment for the Arts will conduct this program along with HUD.

Intergovernmental Personnel Act (IPA)

The Intergovernmental Personnel Act (IPA) is administered by the Bureau of Intergovernmental Personnel Programs of the United States Civil Service Commission. According to Chester Haskell, IPA monies provide one of the few comprehensive opportunities for training and technical assistance available under current legislation.[35] Yet the program suffers from three serious restrictions. First, IPA money can be used only for training of public officials and specifically not for the training of citizens. This prohibition obviously precludes the training of citizens capacity building for partnerships.

The second major restriction is the IPA matching requirement. Currently, the grantee must be able to provide hard and in-kind matching resources equal to 75 percent of the total project cost (formerly the ratio was 50-50). The high matching requirement excludes many potential grantees from the IPA program.

Third, IPA funds are targeted to improve specialized skills areas rather than to provide general management ability. This encourages governmental units to seek training assistance from a discrete, as opposed to a comprehensive, perspective.

Another part of the IPA program permits public officials (usually federal officials) to be assigned to other levels of government, private corporations, or universities for one or two years. The organization to which the official is assigned must pay 25 percent of his or her salary and benefits, with the remainder paid by the federal government. Such arrangements can be reversed, although they normally involve academicians or business executives coming to the federal government for one year periods. The Commission knows of no case of a federal official being assigned to either a community organization or to a neighborhood-related municipal activity.

There are mutual advantages in having federal officials work either in local governments or neighborhood organizations. The official could offer technical assistance in the grant application process and in the design of systems for implementing, monitoring, and evaluating programs. At the same time, the official would learn firsthand about problems at the local level and the impact, positive or negative, of federal programs and procedures on local government and citizens.

IPA is virtually the only federal program for capacity building and training which deals directly with public officials and could provide general support to partnerships involving the neighborhoods.

Law Enforcement Assistance Administration (LEAA)

The Crime Control Act of 1976 (Public Law 94-503) established the Office of Community Anti-Crime Programs within the Law Enforcement Assistance Administration. The legislation stated that the office shall "provide appropriate technical assistance to community and citizen groups to enable such groups to be eligible for grants to encourage community and citizen participation in crime prevention and other law enforcement and criminal justice activities". The legislation also specified that the Office of Community Anti-Crime Programs should coordinate its activities with other federal agencies and programs, and that it should provide information on successful programs to citizen and community groups.

The Law Enforcement Assistance Administration reiterated the basic program objective after the passage of the legislation: "To assist community organizations, neighborhood groups, and individual citizens to become actively involved in activities designed to prevent crime, reduce the fear of crime, and contribute to neighborhood revitalization."

LEAA has contracted with technical assistance organizations to assist community and neighborhood groups in developing and implementing community anti-crime programs. Assistance ranges from information about the Community Anti-Crime Program (including application preparation) through substantive project development, to assistance in the administration and program implementation.

In Fiscal Year 1977, $15,000,000 was appropriated for this program. The Fiscal Year 1979 appropriation was halved by the last Congress. In addition, the following problems limit capacity building potential. First, the Department of Justice does not fully support or understand community involvement. Staff of the Community Anti-Crime Program are not seen as law enforcement "types" and therefore carry little influence within the Justice Department as a whole. Second, technical assistance contractors have little or no input in shaping funding decisions. Third, the program assumes a high level of sophistication for fiscal and program management, yet grants do not provide for planning periods. Fourth, there is disagreement about the roles of LEAA and technical assistance contractors. LEAA sees the contractors as extensions of their staff; the contractors see themselves as community advocates. Fifth, LEAA repeatedly shifts program priorities. The program is too general, with no clear specific, consistent objectives. Sixth, the LEAA sees its role as one of providing technical assistance leading to conflict with contractors who believe that the assistance should be independent of LEAA since LEAA has a control or monitoring function. Seventh, the grant period of 12 to 18 months is too short. There should be multi-year funding. Finally, technical assistance agencies provide assistance to too many groups over too large a geographic area. There should be regional technical assistance resource centers.

Urban Reinvestment Task Force

The Urban Reinvestment Task Force conducts two programs, Neighborhood Housing Service (NHS), and Neighborhood Preservation Program (NPP). The Task Force attempts to build partnerships among city government, private lending institutions, and neighborhood residents through neighborhood based organizations that revitalize structures in the communities. The Task Force itself is a partnership with all of the federal financial regulatory agencies participating.

The task force helps assemble local partnerships by providing staff and money in the start-up stages, and consultation in follow-up stages. The task force field staff helps to secure agreement among the "partners" to develop the neighborhood corporation, its board, and to put together a local staff. It was one of the first federal organizations to realize the importance of building the capacity of all members of urban partnerships—especially neighborhoods.

Role of the Private Sector

Volunteerism

The private sector has made a multitude of contributions to neighborhood skill capacity. Every community volunteer who has skills learned on the job or in school adds to the management, organizational, or technical capacity of neighborhoods. They informally transfer their training to other volunteers. Volunteer activity has a multiplier effect. As people are exposed to several voluntary associations, they may contribute and learn different skills. For example, neighborhood leaders in Chicago's Lakeview area reported to the Task Force on Governance that many of their volunteer colleagues rotate from one organization to another, yet community leadership is not dominated by an inner circle of "professional volunteers". They reviewed the names newly elected to the Lakeview Citizens Council; the leaders knew about one-third of the 50 board members.

Technical Assistance

In addition to internal resources, neighborhoods receive skill training and assistance from private sources outside the community. In the case studies conducted by the Commission, two-thirds of the organizations received assistance from non-governmental technical assistance and neighborhood advocacy organizations. Some of these organizations are national, some regional, and some local. The national organizations included National Neighbors, the National Association of Neighborhoods, the National Training and Information Center, the National People's Action, Midwest Academy, the Center for Community Change, and National Center for Urban Ethnic Affairs. The regional organizations included the Northwest Institute in Seattle, Washington; the New England Training Center for Community Organizers in Providence, Rhode Island; the New Orleans Training Institute; the Iowa Community Development Organization; and the Federation of Southern Cooperatives. Locally there was the Catholic Commission on Community Action in Cleveland. Universities were also credited with providing technical assistance in some cases.

The assistance covered a broad spectrum:

1. Help in getting an organization started;
2. Sporadic or ongoing training of staff and leadership;
3. Some funding, but this was rare;
4. Assistance in focusing on issues or preparing strategies to solve problems;
5. Provision of staff, interns or VISTA volunteers (in the case of the local organization, provision of space as well);
6. Participation in workshops and annual meetings.

Most of the organizations reported that this assistance has been effective. In some cases they credited it with their survival through difficult periods.

In addition to providing direct assistance to community organizations, some private groups outside the neighborhood play an "intermediary" role through assistance ultimately funded by the federal government. Much of the technical assistance provided through LEAA's Community Anti-Crime Program (CACP) has passed through private contracting agencies such as the Center for Community Change and the National Center for Urban Ethnic Affairs. The CACP provided federal funds to over 100 community organizations in the past year. Since many of them had never managed federal funds, such technical assistance was critical. Although it was too early to assess the long range effects of this assistance, it appears to be valuable.

VISTA recently established national grants for training and technical assistance through network organizations. Eleven national grants were made to such organizations. The grants allocated VISTA volunteer placements to the organizations, which in turn reallocated them to a local organization. The national grantee has the responsibility for administering the payroll and benefits. They are also required to provide training in community organizing skills to the volunteers and technical assistance to the participating local organizations. The program was designed to implement a policy of shifting VISTA volunteers from service oriented organizations to community advocacy organizations. VISTA decided that, in the initial stages, national nonprofit organizations would be better equipped to place the volunteers than the agency itself would be. The Center for Community Change has spearheaded a Working Group for Community Development Reform, which grants money and technical assistance to community groups. The Community Services Administration funded a project to help independent organizations gain skills in research and leadership, especially regarding Community Development Block Grants plans and expenditures (see Section II.B. of this chapter).

An overall analysis of technical assistance indicates that it can be a very successful means of bringing skills to neighborhoods. More federal and city agencies should provide technical assistance funds to neighborhood organizations. However, since the needs and capacities of neighborhoods vary widely, technical assistance should not take a uniform, pre-packaged form. Sources of assistance must be flexible and capable of responding to unique conditions. Often, the organizations most likely to be flexible are private rather than public agencies. Government agencies should allow neighborhood organizations to decide with whom to contract for such services and should be flexible in defining eligible services.

Community Organization

Many skills can be learned only by participating in a process rather than through study or technical assistance. The Commission has noted already how the experience of chairing a meeting, negotiating with public officials, or developing a strategy is the best teacher. Individual leadership and management skills learned in the organizing process build the capacity of neighborhoods to respond in the future as a cohesive force.

Many of the skills required to participate effectively in governance cannot be "parachuted in", like a VISTA volunteer. External resources are valuable, but only if they build the inherent strength of internal ones. External resources can serve as incentives, as the Mott Foundation's Stimulate Neighborhood Action Program has. But lasting capacity must come from the residents themselves. The retired bookkeeper, the small businessman, or the PTA President can build the capacity of neighborhoods through volunteerism. They are the ones whose energy and commitment can hold a neighborhood together. They are the ones who understand the special needs of the people on the block because they are also those people.

The technical experts, the city administrators, the federal officials, and all the others who build neighborhood resources should respect the distinctness of each neighborhood and the independence of neighborhood organizations. Through this flexibility and independence, external assistance can build lasting internal capacity.

Building Capacity Through Financial Resources

The Role of Different Sectors
The hearings, case studies, and conferences conducted by the Commission's Task Force on Governance indicated that there are a wide range of funding sources for neighborhood organizations. Neighborhood and community organizations view this diversity of funding as a source of strength. For example, the Buckeye Woodland Community Congress reported that it is independent because funding is becoming more diverse. The case studies also indicated that many organizations start without a funding or development plan. Later, however, board and staff members begin to see the need for financial planning to insure survival and independence.

The Neighborhoods United Project (NUP) in Prince George's County, Maryland, pointed to two dimensions of their budget. The first was a general purpose budget of $40,000 to be raised from the local community and churches; funds from other sources will be used for special programs. The Lakeview Citizens Council follows a similar plan. A core budget of $47,400 comes from the community, while program and development money comes from government and foundations.

In the case studies, churches provided the initial seed money for 80 percent of the organizations. This was often a small amount however, and it was often phased out after one to three years.

Foundations, Individuals, and Corporations
Many organizations in the case studies have received foundation assistance at some stage during their growth. Many also have generated contributions from business and industry, usually from those located in the neighborhood or employing large numbers of neighborhood people. Corporations generally have played only a sporadic role in funding neighborhood and community organizations. Other than local firms, only five percent of the case study organizations received corporate grants at any point in their development. Federal, state, county, or city governments have been another source of funding. Some public money has been channeled from federal sources through nongovernment agencies, occasionally universities.

Approximately 80 percent of the case study organizations have raised monies locally through membership dues, special events, or contributions. However, this usually constituted the smallest part of the organizing budget. This money may be symbolically most important to the neighborhood organization because it represents local ownership and commitment. One organization in the case studies raised its entire budget, $108,000, from the community, through membership dues and an ad book.

It is unrealistic to assume that all funds can be raised within communities and without increased national support for neighborhood and community organizations, including new incentives for individuals to contribute. In 1971, Senator Mark Hatfield first introduced a bill for tax credits for community organizations. This and other means for fiscal empowerment will be reviewed later in this chapter.

The case studies revealed budgets for community organizations ranging from nothing to $2 million. The difference was between groups with issue-advocacy orientations as opposed to those with development and service orientations. The smallest of the latter type had a budget of $250,000. The largest of the former type had a budget of only $135,000.

Financial Resources from the Public Sector

During 1978, the Task Force on Governance conferred with leaders of neighborhood organizations. Many of them were skeptical that public money was a sound basis for capacity building. They were reluctant to accept such funds for their general purpose budgets. Rather they contended that the purpose of public expenditures should be specifically delineated.

The Direct Funding Issue

The continuous battle between community organizations and city governments over so-called "direct funding" of neighborhood and related nonprofit organizations intensified again this year with the Carter Administration's proposal for four new categorical programs for the neighborhoods—HUD's Self-Help Development Fund and Livable Cities Program and ACTION's Urban Volunteer Corps and Good Neighbor Fund. Additionally, the Administration proposed the transfer of the Neighborhood Anti-Crime programs funded directly by the Law Enforcement Assistance Administration to ACTION.

The announcement of these initiatives brought immediate fire from John Gunther, Executive Director of the U.S. Conference of Mayors. He wrote to HUD Assistant Secretary for Neighborhoods Geno Baroni on behalf of mayors: "We believe that neighborhood achievements can best be made by the neighborhoods in close cooperation with their fellow neighborhoods and their city government. Direct federal funding of communities or neighborhoods does not appear to be a move to bring about progress or harmony in cities."[36]

City governments have exerted themselves regularly to prevent small sums of money from reaching neighborhood organizations while much larger amounts of assistance flow into and out of other entities in cities without passing through city halls. National Commission on Neighborhoods Chairman Joseph F. Timilty responded to Gunther's letter: "Many housing subsidies go directly to developers or go through state housing finance agencies. The Small Business Administration, Office of Minority Business Administration, Office of Minority Business Enterprise, National Institute for Mental Health, Economic Development Administration, ACTION, Medicaid, Title XX social services, and for that matter military installations all provide funds to urban areas that are not funneled through mayors."[37] Private sector developers and investors receiving federal subsidies or investments, take actions which affect people in neighborhoods, but which mayors cannot affect. For instance, the use of an investment tax credit to relocate a firm from a distressed city is not regulated by a mayoral veto.

The fact that all these programs reach the local level without city government control suggests that there are some functions that city government can play and others that should be left to the private and voluntary sectors.

The contested areas of funding involve projects which could be carried out by a city government or by a neighborhood organization. Housing rehabilitation programs, job training, economic development, technical assistance, human services delivery, and a wide range of neighborhood revitalization activities could theoretically be solely a city sponsored program or solely a neighborhood run program. Optimally, these programs should be implemented through a partnership between local government and neighborhood organizations.

Neighborhood development organizations provide housing, jobs, or human services in their neighborhoods. Increasingly, these organizations have outperformed local governments. Many participants at the Governance Task Force's conference on capacity building argued that neighborhood development organizations should be supported through means such as set-asides from discretionary programs. Where cities refuse such set-asides, conference participants felt that funds should be allocated directly to neighborhood organizations.

Most advocacy organizations do not attempt to provide services, but instead to compel local government to do so more effectively. The advocacy organization may monitor a Community Development Block Grant and report that the city's project is not serving the needs of low and moderate income people. It may launch a sit-in at City Council offices until complaints are redressed . Advocacy organizations need financial resources to collect adequate data for monitoring local implementation of federal programs. Thus, the federal Community Services Administration has contracted with the Center for Community Change to help local groups monitor the performance of Community Development Block Grants. On the other hand, the Department of Labor provides no funds for similarly monitoring community involvement in the CETA program. Neighborhood organizations should receive funds for challenges of locally run federal programs which are in violation of their original legislative intent.

Advocacy organizations receive little government assistance in organizing, and usually want none. However, in a case where organizers are available through government programs, an advocacy organization should be able to use their services with few strings attached.

Andrew Mott, of the Center for Community Change, offered the following proposal, widely approved by neighborhood people at the Governance Task Force's Conference on Capacity Building:

> The National Commission on Neighborhoods should take a strong, unequivocal stand against all procedures which give local public officials an effective veto over federal funding, training, or technical assistance for community organizations. Instead, the Commission should recommend a procedure which gives local officials thirty days within which to review and comment on proposals from community organizations. Those comments should be considered on their merits by federal officials reviewing the proposals, and reviewed especially on the compatibility between the proposed activities and the local government's plans and priorities. Negative comments should not constitute a veto, any more than citizen complaints concerning CDBG or other local government-run federal programs should lead to automatic disapproval.[38]

ACTION

Out of a total ACTION budget of $119.2 million for 1979, $30.8 million will go to VISTA. Of this $3.7 million VISTA money will be for technical assistance. In 1980, ACTION is submitting a budget of $169.6 million; $38.5 million is for VISTA, and $3.65 million of that would be for technical assistance. The Urban Volunteer Corps and Good Neighbor Fund totalled $25,457,000 in 1980. Good Neighbor Fund grants for neighborhood projects would average $5,000 to $7,000, with a maximum of $15,000. They would be provided in consultation with local officials, and only with mayor concurrence. This concurrence was opposed by neighborhood spokesmen at the conference on capacity building sponsored by ACTION and the Task Force on Governance.

The proposed budget for the ACTION/LEAA Street Level Anti-Crime Program (Mayors Anti-Crime Program) is $10 million. Cities of different sizes would be awarded different amounts of money, ranging from $0.5 million to $1.5 million. The capacity building conference participants were not in favor of the Street-Level Anti-Crime Program. Rather, they favored ACTION cooperation with LEAA and no fundamental changes in eligible grantees.

Community Services Administration (CSA)
The Community Services Administration's Community Economic Development program has a budget of over $45 million in 1978. It is scheduled to receive over $46 million in 1979, and $44.5 million in 1980. These authorizations include for technical assistance; $4 million in 1978, $3.7 million in 1979, and $1 million in 1980.

Comprehensive Employment and Training Act
CETA and Community Development Block Grants also provide resources for neighborhood based organizations. CETA programs have provided staff for some organizations. Participants at the Task Force on Governance's capacity building conference felt that the present CETA legislation, containing a directive that community based organizations should receive "Special Consideration" for Public Service Employment Projects, should be extended to other CETA programs and should be adopted for other discretionary programs as well.

Economic Development Administration
The Economic Development Administration's Office of Special Projects (OSP) can directly assist nongovernmental, local neighborhood based organizations.

In 1978, EDA's total budget was $515 million, of which $30 million was budgeted for OSP; $24 million went to regional offices, $6 million to national headquarters. OSP funds come from four other EDA programs: Public Works, Business Development, Technical Assistance, and Long Term Economic Deterioration. The purpose is to combine the intent of each of these separate programs into one package. Less than ten percent of the total $30 million allocated to OSP comes from Technical Assistance funds. These funds are important, however, because they can be used for specific project feasibility studies.

Department of Housing and Urban Development
Self-Help Development Fund
The fund provides assistance to neighborhood and voluntary organizations for specific housing and neighborhood revitalization projects, totalling $15 million for technical assistance and project implementation.

Department of Housing and Urban Development Community Development Block Grants (CDBGs)
Community Development Block Grants (CDBGs) are discussed elsewhere in the report, especially as a resource for development projects, which have often been contracted by city governments to neighborhood organizations. Just as frequently, cities have informally agreed to accept community organizations' CDBG applications up to a certain amount, especially if they are part of a city sponsored neighborhood plan. In other instances, cities have asked neighborhood organizations to allocate CDBG money that has not been spent near the end of a fiscal year.

Department of Housing and Urban Development Discretionary Fund
The Secretary of HUD set aside $19 million, for Fiscal Year 1978, of her discretionary fund for technical assistance. Of that $14,376,238 (the rest has been reserved for 1979) has been allocated to the following:

Secretarial Priorities	$2,984,558
NVACP	2,828,500
National Priorities	4,117,180
Regional Offices	946,000
State Grants	3,500,000

LEAA

The Law Enforcement Assistance Administration provides funds and technical assistance to community organizations and neighborhood groups In Fiscal Year 1977, $15 million was appropriated for this program. The Fiscal Year 1979 appropriation was cut in half by Congress. It is too early to assess the full impact of this program on community organizations. Problems have arisen for new organizations receiving grants that double or triple their budget. This large increase, compounded by complicated reporting procedures and too little time for program implementation, have strained the development process of new and small neighborhood groups.

Alternative Sources of Funding

Neighborhood Partnership Task Force and Fund

The concept of the Neighborhood Partnership Task Force was presented to the Commission in a report by Chester Haskell, Wendy Sherman, and David Biegel.[39] It follows the model of the Urban Reinvestment Task Force.

The Neighborhood Partnership Task Force would identify and catalogue existing partnership efforts in the area of human services, develop strategies to link services and neighborhood helping networks, design federal pilot programs, and recommend statutory and regulatory changes in human service programs to maximize neighborhood partnerships.

A Neighborhood Partnership Fund would provide training, technical assistance, and financial resources to each "partner" and assure research, monitoring, evaluation, information dissemination, and network formation. The fund would be managed by a corporation with 15 board members appointed by the President of the United States, with the advice and consent of the Senate. It would have equal representation from government, the private sector, and the neighborhoods. The fund would be financed by federal agencies as well as by businesses, labor, the United Way, and foundations.

Participants at the conference on capacity building reviewed the options for a Neighborhood Partnership Fund and recommended that the National Commission on Neighborhoods not support it. They concluded that it would take more energy than it was worth to create a new agency; that such an agency might merely supplant support from foundations and private funding sources; and that it would shift control over resources further toward the national level and such centralization would mean fewer options and choices. There was no consensus on the appropriate composition of the fund's board; there was fear that the fund might lead to "forced partnerships" and "cooptation".

Urban Reinvestment Task Force

The Urban Reinvestment Task Force will receive $8.5 million in 1980, and $10.5 million in 1981.

Revenue Sharing with the Community Sector

A program possibility, suggested to the Commission by Robert Yin, was revenue sharing with community organizations having nonprofit 501(c)(3) status.[40] The Internal Revenue Service requires such organizations to report certain financial information, so such groups are already "registered" with the federal government and can be readily monitored or audited. The proposal envisions two types of federal assistance to qualified 501(c)(3) organizations. The first would be a one time start-up grant, the second a series of annual allotments. Based on the number of dues-paying members, organizations would receive an automatic allotment of funds, large enough to provide an incentive to widen their base of members, but not so large as to foster dependence on the federal government.

The advantages of community revenue sharing include the low administrative costs of an automatic standard for funding and the incentives for community organizations to broaden membership, stimulate volunteerism, and thereby enhance their representativeness. Disadvantages include the forced restructuring of organizations in order to qualify for funding, the potentially narrow range of groups that would qualify and the political improbability of such a program.

Structured Fiscal Empowerment
In a report to the Commission, Robert Hawkins and Charles Hobbs of the Sequoia Institute suggested two alternative means of federal assistance.[41]

The first, Neighborhood Improvement Tax Credits, would involve a combination of income tax credits and rebates for projects that are part of a neighborhood approved plan.

The second, the Neighborhood Improvement Voucher, would redirect federal payments from citizens. The government would issue vouchers to eligible persons for the amount of their pro rata share of program costs. Commissioner John McClaughry and Representative Joel Pritchard described this model in congressional testimony: "The recipient would be told that the federal government had agreed to match his or her own cash contribution by four to one, for example, to the neighborhood improvement organization of his or her choice."

B. State Funding

Several state programs reviewed in the case studies have awarded grants to neighborhood and community organizations. Various county governments have funded neighborhood youth programs and neighborhood services for senior citizens. Both levels of government typically allocated resources to a neighborhood or community organization to provide a specific program for neighborhood residents. These grants were usually made after an organization had proved its viability and had the capacity to provide direct services or programs to the neighborhood. Such grants have almost never been made as initial seed grants or to fund the core activities of the organization.

C. City Government Funding

City governments have contracted with community organizations to deliver services, have funded staff for neighborhood planning and for technical assistance to community organizations, and have passed federal dollars through to neighborhood groups. Cities have not been known to fund independent neighborhood organizing, except when the organizations are recognized as community councils or other mandated citizen participation structures.

Robert Hawkins and Charles Hobbs offered another set of possibilities to the Commission.[42] They suggested alternative models for stimulating neighborhood self-help organizations, intended to facilitate both fiscal and political empowerment. The first model involves Special Municipal Taxing Districts. Made possible by state enabling acts, these districts would become a sub-unit of city government. The process of forming one would be initiated by a petition followed by a hearing and then an election.

A second model, the Neighborhood Revitalization District, calls for full neighborhood government with independent taxing authority. It would broaden the existing practice of community service districts in unincorporated areas. By petition, citizens could initiate the formation of districts in states with enabling legislation. Once the process was completed the districts could tax, levy service charges, and issue bonds.

A third model, the Neighborhood Improvement Corporation, would distribute one share of stock to each resident in the neighborhood, and governments would fund improvements through a sole source contract with the improvement corporation.

The capacity building process requires involving people, sometimes for the first time in their lives, in decision-making processes on their block and in their neighborhood. A process keyed to people, not a complex program, is the cornerstone of neighborhood capacity. Success must ultimately be judged by the degree of neighborhood improvement and by changes in individual lives.

Members of advocacy organizations have suggested guidelines for public funding of advocacy organizations. The grantor should be sensitive to where the organization is in its own growth. If an organization is in its very early stages, then a relatively small grant which could be used to bring in other funds would be best. If the organization is a mature one with an established budget, several levels of seasoned leaders, a broad base of members, and experience with issues of increasing size and complexity, then it is less likely to be swayed from its direction by public funds. Larger amounts could then be made available. But the grantor should be sensitive to existing budget priorities and organizational purposes so that the grant facilitates, rather than impedes, development. Though some groups have the capacity to administer large programs and budgets, small grants should always be available.

Guidelines should be flexible enough to encourage neighborhood and community organizations to plan, direct, and administer programs which will further the goals of participation and citizen responsibility. The process which allows the time and effort to bring diverse groups together for a common goal should be encouraged.

Programs that involve matching funds could encourage neighborhood and community organizations to do the local fundraising necessary for their growth and survival. However, this might discriminate against new organizations and organizations in poorer communities that lack financial resources.

Participants in the conference conducted by the Commission's Task Force on Governance endorsed those programs, specifically VISTA and CETA, which fund individuals. Such programs have proven valuable to neighborhood and community organizations because they provide vitally needed staff members.

D. Private Sources

Church Funding

A basis for the Commission's recommendations[43] on church funding was drawn from a report to the Commission by Bernard Evans of the Campaign for Human Development, and from reactions of neighborhood participants at the Task Force's Capacity Building Conference.

Over the last decade, American churches have taken a leading role in supporting neighborhoods and community organizations. They have been the most significant source for the initial funding of new community organizations. Approximately 70 percent of the organizations reviewed in the Governance Task Force case studies reported that either local or national church sources were their first source of outside support. Church funds are especially valuable to new organizations because they have few strings attached and require no complicated reporting system.

Although churches have been supporting organizations for many years, their resources are limited. Some church leaders feel the support could be increased if other sources, such as government, would demonstrate a willingness to help sustain organizations after their formative, church-supported years. Other leaders, however, have reservations about government support for organizing at any stage. One approach, an indirect one, would have government help churches to revitalize buildings that they would make available to for community organizations. These buildings could include unused schools, convents, and other structures, especially in deteriorating sections of the city.

Members of neighborhood organizations have repeatedly asked that ways be found to improve access to church funds. The organizations themselves could facilitate the process by helping the churches raise money for neighborhood projects. The amount of money that can be raised is dependent on the ongoing impressions of people in the pews. How well they respond reflects how well they think the money is spent. It is essential that neighborhood organizations keep church members informed about how their money is being spent. In addition, the neighborhood organization might publicize donations they receive, enhancing the name of the church as an institution of good will.

Foundation, Corporate and United Way Funding

In a report to the Commission, Robert Bothwell of the Committee for Responsive Philanthropy, reviewed the current state of private funding for neighborhood organizations.[44] He noted that the state of this funding is depressing for those who believe that such support should be substantial. Representatives of both donor institutions and neighborhood groups share remarkably similar conclusions about the situation. Unfortunately, traditional private funding institutions such as foundations, the United Ways, and corporations tend to be ignorant of and insensitive to the neighborhood organization. They do not solicit funding requests from neighborhood groups and they rarely respond favorably to the few requests that they do receive.

Traditional private sources, with few exceptions, are particularly resistant to funding requests from neighborhood organizations seeking help for controversial activities essential to resident capacity and neighborhood "self-determination". Nor are neighborhood organizations knowledgeable about these private sources; by and large the organizations do not even apply for funding from them. When neighborhood groups do pursue private funding, they often do so with inadequate preparation and follow-through.

Donors tend to perceive most neighborhood organizations as "shaky" of questionable longevity, and without strong leadership on a sustained basis.. They believe that a lack of staying power will doom the organization to failure in dealing with significant issues. Donors also tend to perceive local groups as unrepresentative of their communities. They often believe an applicant group to consist largely of the staff director, the Board president, and a few followers. They question how committed residents are to supporting the group.

There are factors inherent in the history and personnel of philanthropic institutions that work against any major improvement of donor attitudes toward neighborhood and other grassroots organizations. Historically, private and community foundations have been the products of personal wealth. United Funds have their roots deep in profit-making businesses and corporate giving programs, usually reflecting the preconceptions of corporate officers.

The trustees, board directors and staff of foundations, United Funds and corporate giving programs are representatives of those whose wealth separates them from neighborhood concerns. Few decision makers in major traditional funding institutions other than churches have readily responded to the plight of decaying communities. All this is perpetuated by the nature of the selection processes used by boards of trustees or directors of foundations and United Funds. Generally, private funding sources, neighborhood leaders say, are fearful of or openly hostile to resident participation in decision making, community organizing for advocacy or "confrontation", and other manifestations of neighborhood struggles for self-determination.

Community organizations repeatedly complain of the barriers to traditional funding institutions. Initial access to the United Way is relatively easy compared to most foundations and corporations. Yet neighborhood leaders almost unanimously object to the tortuous, lengthy process to which all new applicants for United Way membership and funding are subject. Even those lucky enough to secure funding find that doing so takes several years. Further complicating the problem of access is the propensity of foundations and corporate giving programs to operate in virtual secrecy. Decisions are made at board sessions closed to the public. The informal decision making process outside the board sessions may be even less accessible.

Another major problem is the misuse of formal ratings of organizations by Better Business Bureaus and The National Information Bureau, and informal ratings by some community foundations, local Chambers of Commerce and United Funds. Negative ratings often exclude neighborhood groups seeking funds even before initial personal contact can be made. Above all else, who gets the grants seems to be as much or more a matter of "who you know" in the private funding world than what a neighborhood organization can do.

Urban League President Vernon E. Jordan, Jr. a few years ago characterized foundation involvement in minority communities: "[There] is the assumption that foundations have been deeply involved in supporting social change. It's assumed that foundation monies have been disproportionately distributed to the powerless, rather than to the powerful; to the experimental innovators rather than to the stable conservers; to unpopular causes rather than to those with broader support. As one who has been marching to foundation offices for the past decade in search of funds for southern voter registration, for black colleges, and now for the Urban League's programs . . . I know that these assumptions are not true."[45]

The Filer Commission study focused on 40 major agencies that customarily receive United Way funding. The conclusion: "The average change from year to year is about 0.2 percent per agency."[46] For example, the Boy Scouts received 5.5 percent of the total funds allocated in 1973 and 5.4 percent in 1974, only a 0.1 percent change.) "Hence there was on the average, only miniscule change in United Way allocations of over $500 million to these 40 major charitable agencies."[47]

A very recent study by United Way of America of 62 United Ways concluded that over 1,000 new organizations had been admitted as members in a recent nine year period. While this seems impressive, it offers little hope for the large number of neighborhood organizations that do not currently receive United Way funds. All the figures come down to the stark fact that less than two new agencies have been admitted to membership every recent year in each of the 62 largest United Ways.

As if the general exclusion of new groups were not enough, United Ways impede neighborhood and other groups by virtually monopolizing many fundraising sources. United Ways have become the largest federation of charitable fundraising organizations by soliciting employees in their plants and offices under corporate and government sponsorship. Employees make contributions through payroll deductions. The United Ways account for almost all workplace solicitation, and they lobby in an attempt to eliminate competition for workplace donations.

New Developments in Traditional Funding Institutions
Corporate programs for matching employee gifts to educational institutions, to arts and cultural organizations, and to hospitals are widespread. While only a few corporations now have matching programs which are relatively open about which nonprofit groups may benefit, such open programs are logical extensions of donations to educational, cultural, and health institutions. If the open programs extended to many more corporations, neighborhood organizations would have a major source of private funds.

Alternatives to Traditional Funding Institutions
It is not that foundations have not responded to the public interest movement, ranging from consumer to environmental interests; some have. The way the grant game is played between foundation officials and applicants has not changed fundamentally, but there are encouraging developments. Foundation funding of intermediate, technical assistance organizations, although hardly a new idea, can indirectly be helpful to neighborhood organizations. There is a trend towards changing habits of secrecy in the foundation world; almost 500 foundations now publish annual public reports and a few foundations hold annual public meetings. Foundations have been forming regional associations to promote greater communication between potential applicants for funds and foundations; there are 25 such regional associations. New foundations have been established sharing decision making with community people; five foundations have been funded by the inheritances and income of wealthy young people whose social consciousness was formed in the 1960s.

Several institutional reforms could increase United Way funding for neighborhood organizations. At least two California United Ways this year will have open designation schemes which permit solicited employees to contribute to the charity of their choice. The Milwaukee United Way has a special allocations committee to receive and recommend funding requests related to neighborhood needs. And several years ago, the National Capital Area United Way admitted the local United Black Fund as junior federation partner, guaranteeing it all funds specifically designated for it and a specific proportion of new revenues collected, while allowing the United Black Fund to make its own decisions.

Some groups excluded by local United Ways have resorted to confrontation tactics to gain United Way attention and support. A public challenge was mounted in New York City last year by the executives of black charitable agencies and a donors boycott in California this fall was organized by minority organizations.

While United Ways have had a virtual monopoly on workplace solicitation tied to payroll deductions, there are signs of restiveness on the part of other charities, government, and corporations. There are two new developments in government and business. One permits most charities solicitation rights. The other allows a few charities such rights. The state governments of California and Iowa, a major alternative fund raising federation in Los Angeles, and at least three major business firms have payroll deduction systems which permit employees to make contributions to almost any charity. The federal government, the state governments in Wisconsin, Pennsylvania, and Connecticut, several city and county governments, several public school systems and universities, and hundreds of business firms have payroll deduction systems which permit employees to give to designated charities through at least one fund raising federation other than United Way.

Individuals Other than Employees as a Source of Funds
The potential for long term support from individuals, once likely donors are effectively identified and successfully solicited, seems to offer an important advantage over the often short term support provided by foundations and other traditional funding institutions, which increasingly have tended to make grants to social action groups only for limited duration "projects".

Federal Tax Incentives
The primary indirect method for stimulating individual private giving is the system of tax incentives for individuals who contribute to any charities, including neighborhood organizations. Two issues are particularly relevant in neighborhoods: extending tax incentives for charitable contributions to more taxpayers, and raising the tax incentives for charitable contributions by lower and middle income taxpayers.

1. Extending tax incentives for charitable contributions to more taxpayers.
Almost since the imposition of the federal income tax 60 years ago, there has been a basic tax incentive for individuals to make charitable contributions. Tax filers have been able to deduct contributions from their total income, thereby reducing the amount of income on which they must pay taxes. In order to simplify the tax laws, however, Congress instituted the standard deduction. Anyone using the standard deduction cannot deduct charitable contributions. Taxpayers who use the standard deduction, therefore, have no tax incentive to make charitable contributions.

Over the years, Congress has increased the standard deduction. From 1970 to 1977, the proportion of taxpayers using it increased from 52 percent to 77 percent. This means that only 23 percent of federal taxpayers today itemize their charitable and other deductions. Less than one-fourth of taxpayers have any federal tax incentive to contribute to charities such as nonprofit neighborhood organizations. Last year, the Administration proposed tax changes that would have further reduced the percentage of taxpayers who itemize charitable and other deductions from 23 to 16 percent.

When the Filer Commission on Private Philanthropy and Public Needs studied this situation three years ago, it recommended allowing all taxpayers to itemize and deduct their charitable contributions whether or not they use the standard deduction. The Filer Commission predicted giving to the nonprofit sector then would increase substantially.

2. Raising Tax Incentives for Charitable Contributions
Low and Middle Income Taxpayers
The problem with a simple extension of the charitable deduction to all taxpayers is that it would mean grossly maldistributed incentives to taxpayers at different income levels.

The Filer Commission recognized the problem. In addition to its basic recommendation to extend the charitable deduction to all taxpayers, the

Commission also recommended a double deduction for families with incomes below $15,000 a year and 150 percent deduction for families with incomes between $15,000 and $30,000.

In July of 1977, Senator Edward Kennedy proposed replacing the charitable deduction with a 30 percent tax credit that would give a relatively equitable incentive to contribute. If a taxpayer contributed $100, he or she could subtract $30 of taxes. The major drawback of the proposal is that, by reducing tax incentives for giving by high income taxpayers, it could severely hurt some charities dependent on contributions from the affluent. It could also reduce overall giving.

A variation on the Kennedy approach was proposed in 1978 to give taxpayers the option of either the existing itemized deduction or a fifty percent tax credit, up to $500. This would alleviate the negative effects of Kennedy's proposal while significantly increasing the equity of tax incentives for giving. Another alternative is an optional 30 percent tax credit with no limit. The cost of an optional credit would be considerable, although only marginally more than the cost of extending the charitable deduction.

Conclusions

Equity, Race, and Ethnicity in American Neighborhoods

It is impossible to divorce problems of neighborhoods and cities from those of race. In recent decades, racism accelerated the white flight to the suburbs and restricted blacks to ghetto neighborhoods, lacking economic and political strength. City governments, weakened by a fiscal drain, were often constrained further by unsympathetic, even antagonistic, state legislatures. In spite of political platforms and programs, efforts to reduce the income gap between blacks and whites have failed. Some leaders, notably Commissioner Maynard Jackson, fear that an orderly end to social unrest is increasingly unlikely. Therefore, major priority should be given to the concerns of minorities in America. A neighborhood policy, emphasizing equity for minorities, would provide a constructive focus for capacity building among these groups.

The Commission addresses the problems of minorities, as well as other groups lacking capacity building resources, through its focus on equity.

Equity is a central concern of this Commission. The term equity, as it is used throughout this report, means redistribution to meet the special needs of those lacking resources or the opportunities to obtain them. Equity also refers to a "common good" greater than the interests of any individual group. A view of the common good is especially important in times of limited resources. It is then, administrators are fond of saying, that someone must "make the hard decisions".

The Commission insists that strategies exist which can serve both the "common good" and the "special good". These strategies seek equity through building capacity. On the one hand, if resources are spent to develop leadership and organization, and to thus empower neighborhoods, all the partners in the decision making process will stand on more nearly equal footing. Decisions are then less likely to favor those who already have the most. On the other hand, if resources are spent to develop the management, technical and financial resources to revitalize neighborhoods economically and physically, then the pie will be expanded and there will be fewer "hard decisions" to make. Either way, equity will be served. If both aspects of capacity are developed, then the potential for equity will be fulfilled.

In American cities, equity problems often translate into ones of race and ethnic status. The Congressional Black Caucus, in a letter to President Carter in March, 1978, stated that "jobs and economic development are the primary means for substantially improving the quality of life for those persons who live in areas of concentrated poverty."[49] This strategy is consistent with the Task Force on Governance's emphasis on capacity building as the most appropriate strategy. Capacity building through economic development has especially strong potential when the process involves community controlled corporations, and when governments have the adaptability to respond to unique needs in different neighborhoods.

Commissioner Peter Ujvagi, in testimony to the House Committee on Banking, Finance, and Urban Affairs, cited the capacity building strategy in East Toledo, Ohio:

> The River East Project is a success because we built the capacity of the neighborhood to make it a success. We made mistakes and we learned. Not only do we know the technical aspects of commercial revitalization, but we have learned to leverage public and private funds in a way no urban renewal and few CD and UDAG projects can.[50]

In River East, they started with $3,000, contributed by residents and businessmen of East Toledo. Through a sequence of matching grants, they leveraged $120,000 of private and public funds for operating monies. They then proceeded to leverage $3.2 million for project implementation. Ujvagi noted that neighborhood capacity, in conjunction with a supportive city government, turned the project into a success. In Toledo, without the support and assistance of the Administration, the mayor, and the city council, the project could not have succeeded.

This instance of capacity building, with neighborhood initiative and government support, is not an isolated case. It has happened in Baltimore, in Providence, and in cities all around the country.

Nevertheless, government cannot always rely on neighborhoods to take the initiative. Some equity issues, such as discrimination in education and employment, cannot be resolved at the neighborhood level. The "neighborhood movement" or "new partnerships with neighborhoods" should not become as rhetorical excuses to pass the buck of government responsibility. Mayor Maynard Jackson, a member of the Commission has pointed out: "The bulk of dollars that come into minority neighborhoods are not for reinvestment, but are in the form of transfer payments."[51] These resources are important, but they do not build the capacity of the "beneficiaries". Such strategies may perpetuate dependence rather than fostering independence. If these are the only strategies, we are not merely treating symptoms, but aggravating them.

For racial and ethnic groups in cities, equity is sometimes a problem of exclusion and at other times a problem of displacement. The urban crisis has meant the decay of neighborhoods and limited freedom of movement for minorities. In the past few decades, whites have left cities and then resisted attempts by racial minorities to follow them. Now, in the midst of inflation and with the new vogue for neighborhood revitalization, the more recent phenomenon is displacement. The blacks and browns who inherited the problems of the city are being pressured out of their neighborhoods.

The Commission supports neighborhood preservation, but not at the cost of destroying social and cultural bonds among neighbors, or shuttling the less affluent and less powerful from place to place. Recommendations include "historic preservation without displacement" of the kind that has occured in the Pullman area of Chicago. The Commission also supports the enpowerment of organizations that can preserve and develop independent, self-determinating neighborhoods.

Some community organizations recognize that race and ethnic tensions can be overcome by focusing on neighborhood based, crosscutting issues such as housing and city service. For example, People Acting Through Community Effort (PACE) in Providence, drew its geographic boundaries to include black and white neighborhoods. Although there was friction in the early going, the neighborhoods in PACE developed a working relationship by focusing on issues that superseded racial divisions.

Often the words "neighborhood" and "community" are interchangeable. In fact, "community" has come to have the connotation of "people having common characteristics or interests", whereas "neighborhood" implies a physical location or district. A neighborhood of course may also be a community. Yet, one is necessarily geographical and the other is not. Unfortunately, some associate the "neighborhood movement" with exclusionary forces and with segregation. The National Commission on Neighborhoods rejects this notion. Instead, it supports the view of neighborhoods held by PACE and others. The Commission adopted the following statement:

> The hopeful quality about the neighborhood movement is that it has enabled blacks and whites to coalesce around convergent issues. Multi-racial coalitions that improve city services, demand accountability of public officials, and promote confidence in the community through self-help can be the best possible antidotes to racism.[52]

This Commission endorses guidelines established by Community Development Block Grants and other programs insisting that expenditures should be concentrated in low and moderate income areas. The Commission also endorses the Joint Center for Political Studies recommendation that "funding of neighborhood development must be adequate enough to minimize competition between diverse ethnic and racial groups and to insure that minority communities receive a share which is proportionate to their needs."[53]

Finally, the Commission believes that mechanisms which facilitate the participation of racial and ethnic groups at all levels should be developed. The Joint Center for Political Studies report recommends: "Guidelines should encourage representation on neighborhood boards."[54] Yet the Commission has found that citizen participation mechanisms often discourage representation and therefore equity.

In fact, capacity building may be more fundamental than representation. If racial minorities are represented on a powerless advisory board, what is the result? The solutions are not simply "having a voice" or "joining in a partnership". Rather, racial and ethnic groups who lack equity need the skills and financial resources that provide internal strength and independence. When they can enter partnerships without losing independence, then they will be able to achieve equity for themselves, which is only way that it will be secure.

Partnerships without Losing Independence

We must learn the difference between working and being worked.

Booker T. Washington

In the last decade, innovations in participation have provided new alternatives for neighborhood governance, in the area of electoral politics, citizen participation, neighborhood sub-units of government, community controlled development and service organizations, and issue-oriented advocacy organizations. There are strengths and limitations with each form of participation. Since neighborhoods are diverse in composition, resources, and needs, each neighborhood in each city must decide for itself which forms of participation are best. In fact, combinations are often appropriate, with several forms coexising in the same neighborhood.

Partnerships, like the Neighborhood Corporation's Neighborhood Housing Services, can combine resources and focus energies in a single direction. However, the partners must recognize the price. City government must understand that it must give up something to get something. It must permit the growth of capacity and independence among neighborhood organizations that will not always be friends of city hall and may be very difficult to co-opt. In his testimony to the Subcommittee on Housing and Community Development of the House Committee on Banking, Finance, and Urban Affairs, Commissioner Peter Ujvagi noted:

> Where a city government has made neighborhood revitalization a priority and accepted the role neighborhood groups must play in the process, we ·have observed that the ability of the city itself to stimulate positive activity and solve neighborhood problems has greatly increased. In other words, the capacity of a city to successfully accomplish urban revitalization goals increase with the capacity of a neighborhood organization to initiate, execute and sustain revitalization efforts.[55]

The best long range strategy for neighborhood revitalization and governance is capacity building. To achieve it, however, partnerships are not always appropriate. First, each sector of American society, public and private, has its own responsibilities. For example, city government should not be allowed to abdicate its obligation to perform basic services, such as police and fire protection. Community groups engaged in successful non-partnership strategies should not be discouraged or sidetracked. Second, it would be a disservice to jump on a "partnership bandwagon", requiring this rhetoric as a precondition for funding. In all of these circumstances, partnerships would be forced and hollow.

> When there is no struggle, there is no progress. Those who profess to favor freedom and yet depricate agitation are men who want crops without plowing up the ground. They want rain without thunder and lightening. They want the ocean without the roar of the many waves. This struggle may be a moral one, or it may be a physical one. It may be both moral and physical, but it must be a struggle. Power concedes nothing without a demand. It never did, and it never will.
>
> Frederick Douglas
> August 14, 1857

The National Commission on Neighborhoods acknowledges the continuing need for independent advocacy. Without it in the past, neighborhoods could not have gained the attention or the respect of public officials. Therefore, these mechanisms are an important means for achieving and maintaining the accountability of public and private institutions.

The future of the neighborhoods is the future of the nation. If we respect each other as equals, with equal dignity and equal strength, then the future will be secure.

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Staff and Consultants

Staff

Juanita Acevedo
James T. Barry
John Eade, Administrator
Rich Fowler
Gail Frattin
Jean Holmberg
Constance Kastelnik
Greta Smith Kotler
Howard Leibowitz
Audree O'Connell
Iric Nathanson
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Gar Alperovitz
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Additional Views

Anne Bartley
This report reflects the hard work and conscientious efforts of many people. I commend them and, in particular, I would like to commend the Chairman of the Governance Task Force, of which I was a member, Mr. Peter Ujvagi of Toledo, Ohio. Yet, notwithstanding nor diminishing these efforts and without rewriting parts of this final Report, I must state that I cannot agree with many parts of the Report. However, overall I find much to agree with and hope that this Report in balance helps the neighborhoods that all of of the Commission believe in and want to help.

Representative James J. Blanchard
I cannot in good conscience support this report by the National Commission on Neighborhoods. My reasons are too numerous to list, but in general I do not agree with either the overall approach taken in the report or many of the document's specific proposals.

I regret that I must dissent, for I have the highest personal regard for my fellow Commissioners. I believe that time, personnel and budgetry constraints placed a burden on the Commission that prevented it from realizing its full potential.

Harold W. Greenwood Jr.
I commend the entire membership of the Commission for their very dedicated work. My only negative comment is that I wish the positive recommendations were more in balance with negative criticism, many of which have been given consideration.

Norman Krumholz
The mandate of the National Commission on Neighborhoods was to produce a "comprehensive study and investigation of the factors contributing to the decline of neighborhoods and of the factors necessary to neighborhood survival and revitalization." To a limited extent this was done. Certain important problem areas were identified and task forces were set up to make recommendations on policy changes in these areas. Once these task forces were established, however, little attempt was made to maintain a comprehensive and coordinated approach to the overall issue of neighborhood decline. The result is a final report which is a smorgasbord of major and minor issues and over 200 recommendations. The recommendations, which appear to include something for each participant's interest, fall far short of a coherent strategy to deal with the problems of our neighborhoods.

In spite of its impressive size, the most notable characteristic of the Commission's final report is the superficial treatment given a number of factors which are conceded by all Commission members to have played predominant roles in neighborhood decline. Major issues like poverty, interracial conflict and segregation and institutional inequality receive insufficient attention, while the key issues of crime and schools barely surface at all. In contrast, the impact of taxation policies is discussed in voluminous detail and every aspect of increased funding for neighborhood organizations is explored fully. Sadly, it is the problems that are the most complex and for which meaningful solutions will be most difficult to achieve that this Commission report virtually ignores.

The creation of a National Commission on Neighborhoods provided a unique opportunity to bring together the talent and the resources necessary to provide answers to the hard questions which must be resolved if our neighborhoods are to survive. Regretably, the Commission never really asked the hardest questions, let alone answered them.

Senator Jake Garn, Robert B. O'Brien, Jr. and
John McClaughry.

The foregoing Report of the Commission has some strengths and several weaknesses. Due to severe space limitations it is not possible to discuss all of those strengths and weaknesses in appropriate detail. The following comments can thus only suggest our general view of the subject.

On the positive side, the Report rightly recognizes the key concepts that can bring about a true revitalization of America's urban neighborhoods. The most important of them are—

- The devotion of power and responsibility from government to the people
- The creation of a meaningful, independent capacity of neighborhood people to act in their own self-interest
- The restructuring of the existing system of laws, ordinances, and administrative procedures to lower the barriers to neighborhood self-help
- The strengthening of the intricate interpersonal sharing networks which combine to build a genuine community
- The targeting of necessary government assistance to those in genuine need, rather than to satisfy the quite different needs of government bureaucracies, experts, and politicians.
- The necessity for ending religious, racial, and ethnic discrimination.

One thing that our service on the Commission has brought home to us is the fact that government—city, state and federal—has all too often stood in the way of neighborhood people seeking to achieve these important goals. Governments have claimed an ever-increasing portion of the citizen's paycheck, and yet an increasing number of citizens are coming to believe that they simply are not getting their money's worth. At the same time, the constant depreciation of the dollar through inflation has reduced the purchasing power of what is left to them after they have met the government's demands for taxes.

All too often, too, thoughtless and unwise government programs have contributed to the destruction of otherwise viable urban neighborhoods. Legal and regulatory groundrules established by government have in practice frequently favored the privileged and denied opportunity to the powerless. Instead of giving neighborhood people the resources and the opportunity to speak and act in their own self-interest, governments have imposed a whole procession of ill-conceived programs upon neighborhood people, heedless of their aspirations. From coast to coast, at public hearings, on street corners, and in church basements, neighborhood people made these points to us again and again.

Among the recommendations of particular value are those relating to the restructuring of city government to make it more responsive to and supportive of neighborhood-level initiatives; revision of the Federal income tax code to facilitate investment in neighborhood housing; improvements in the procedures for recycling dilapidated or abandoned properties back into use; and redirection of the building code enforcement process. In these areas we believe the Report makes a signal contribution to public policy.

At the same time, we must point out a number of omissions and inadequacies. The most striking is the Report's failure to take note of President Carter's determined attempt to restrain inflation. The President has made it clear to the nation that he regards the size of the Federal budget deficit as a major driving force behind expansion of the money supply, and hence the inflationary rise in the general price level. And yet the Commission seemingly felt no restraint in recommending major increases in Federal spending which, if acted upon, would destroy whatever hope there is of moving toward a balanced budget and price stability.

The Commission similarly passed over all too quickly the serious problem of the economic future of the nation's cities, particularly the older Midwest and Eastern cities. Unless the cities can be made economically productive, their neighborhoods can scarcely hope to prosper other than as dependent colonies of the government. A full program for dealing with the problem of urban economic decline was beyond the Commission's mandate, but we feel that the subject deserved considerable more attention than it received in these pages.

While the Report does recommend continuation of neighborhood-based anti-crime programs, the Commission did not come squarely to grips with the severe problem of crime. The prevalence of urban crime has been repeatedly cited as a major contributory factor in the flight from the cities and their decline in economic and social vitality.

The Commission declined to address the unfortunate effect upon urban neighborhoods—both black and white—of school bussing to achieve racial integration. The Commission also rejected a draft Report section on the problems of rent control, preferring to remain silent on that subject as well. We believe that both forced school bussing and rent control can pose serious threats to the preservation of stable urban neighborhoods, and that the Commission erred in refusing to consider their effects.

Turning now to specific recommendations in the Report, we express considerable skepticism at the recommendation advocating direct Federal funding of neighborhood groups. Fifteen years of experience with Community Action, Model Cities, and numerous other Great Society programs has led us to believe that direct Federal funding is an unacceptable idea. It poses the now-traditional problems of legitimacy, accountability, and co-optation. In addition, the adoption of such a policy opens the door to massive expenditures of public funds on a scale which the nation cannot now afford. We believe that much more consideration should have been given to techniques for leaving resources in the pockets of neighborhood people, to be used under their own direction for their own benefit. Among these the neighborhood improvement credit plan, sponsored in Congress by Commissioners Pritchard and Blanchard, deserves special consideration and implementation on a demonstration basis.

In the human services area, we are disappointed at the total lack of discussion of the role the community school might be able to play in strengthening neighborhoods and providing opportunities for self-advancement and community improvement to all age groups.

In the area of economic development, the Report seems to suggest that the answer to the economic problems of our cities lies in a reorganization of Federal agencies in Washington. This notion would be amusing if the implications were not so serious for urban America. The Report advocates something labelled a "Community Full Employment Strategy", the substance of which eludes precise identification, but which seems to be concerned with massive public expenditures to create jobs. The authors of this "strategy" have previously distinguished themselves by authoring a paper calling for government credit allocation, wage and price controls, a legally-enforceable right to a job, extensive governmental participation in the ownership of industry, and creation of a "democratically determined national plan."

We believe that the "Community Full Employment Strategy" so enthusiastically discussed in the Report is too vague to have any meaning; or, if the elsewhere-expressed intent of its authors is construed as its content, the "strategy" is simply one for the implementation of a totally government-controlled economy.

We believe that such a course is not in the interest of neighborhood people or anyone else, other than the highly-paid government experts and planners who would tell us all how to run our lives. We believe that a economic policy should be built upon sound money that retains its value, ready availability of investment capital, removal of undue regulatory barriers to enterprise, a tax system that allows producers to enjoy the rewards of industry and the preservation of an open, vital, competitive economy free from the burdens of business monopoly, labor monopoly, and government price-fixing.

We find the reinvestment proposals of the Report particulary ill advised. The entire thrust of these proposals is to demand that the government power be used to force private actors—particularly lending instructions and insurance companies—to act against their business judgment. Indeed, the Report all but makes both industries into public utilities.

Perhaps the greatest success in neighborhood revitalization in the past decade has been the Neighborhood Housing Services program. This is an effective partnership between the Federal government, the savings and loan industry, and neighborhood groups in over 50 cities across the country. By working together, the lenders, the government, and neighborhood people have produced an outstanding record of improving neighborhood housing. We are amazed that this achievement goes completely unnoticed in the Report of a National Commission on Neighborhoods.

The Report does not consider incentives to all parties to cooperate in rebuilding the cities. Instead it threatens the private lending industry with severe penalties for not doing what the government thinks it should be doing—with its depositors' funds. It as much as instructs the property insurance industry to write insurance at a loss, to be borne by its policyholders and shareholders. We believe that this is a drastically wrong approach. The enlightened leadership of the lending and insurance industries has shown that it is willing to cooperate in constructive partnerships for neighborhood revitalization in many cities. We need to build upon that base. Instead, the Report goes off in a direction almost certain to be counterproductive. We consider this a grave disservice to the cause of the neighborhood movement.

We also lament, in the reinvestment proposals, the absence of any recommendations to empower neighborhood people to mobilize their own capital and reinvest it under their own control in their own neighborhoods. If unresponsive lending institutions are accepting deposits from neighborhood people and reinvesting the money elsewhere, neighborhood people should organize to withdraw their capital and put it in an institution which responds to their needs. If there is no such institution, neighborhood people should be helped to establish their own institutions to achieve their objectives, such as community credit unions which the report notably fails to discuss. Instead of examining self-help approaches to dealing with reinvestment, however, the Report focuses on strategies for bringing political power to bear to force reluctant lenders and insurers to expose themselves to losses they do not wish to incur. We believe the answer lies not in force, but in opportunity.

We are strongly in agreement with the thrust of Report's proposals for removing obstacles to neighborhood self-help and revitalization. We regret, however, the failure of the Report to come to grips with the important matter of incidence of the local property tax.

We believe that a property tax which impacts more heavily on improvements than on land—which is the case in most cities—is a tax which discourages property improvement and encourages speculative land-holding. While we are not necessarily prepared to advocate a full site value tax, we do believe that the property tax should at the very least be assessed equally on improvements and land. The Commission unfortunately could not make up its collective mind on this subject, and as a result no discussion of it appears in the report. We think this is a serious omission.

We also regret the decision of the Commission to eliminate a documented recommendation for the exemption of neighborhood self-help rehab from the provisions of the Davis-Bacon Act. This Act requires the payment of "prevailing wages" and adherence to specified work rules on all construction valued at more than $2000 where certain Federal programs are involved. Among these are the §312 rehab loan program, the community development block grant program, most FHA mortgage insurance programs, §8 housing subsidy programs, and certain CETA programs.

The Davis-Bacon Act is simply a Federal price-fixing scheme to inflate building trades wages and prevent competition for available jobs. In the New York City East 11th Street program, to cite a notorious example, the Department of Labor required that for every young Puerto Rican man working on his own apartment in a formerly abandoned building, at least *twelve* journeyman union plumbers had to be hired. Over all the trades involved in the project, an average of *five* journeymen had to be employed for each neighborhood resident contributing his sweat equity.

All across the country we heard complaints from neighborhood people about how the Davis-Bacon requirements increase costs and limit opportunities for self-help in government—assisted housing rehab. We believe that the Commission's recommendation that unions and neighborhood groups try to work together is ingenuous, to put it mildly. It is not possible to explain the matter in detail, but the truth of it is that the Davis-Bacon Act is so structured and administered that it is virtually impossible for unions to cooperate with neighborhood rehab legally, at a reduced scale, without threatening the wage scale on non-neighborhood construction projects in the city.

We believe that the only effective solution is to exempt neighborhood-controlled, non-profit housing rehab from both the wage and work rule requirements of the act.

We regret the action of the Commission in rejecting a proposal to reform the present occupational licensing system to create more opportunities for young people—many of them from minority groups—to get started in the home repair business. The present occupational licensing laws in many states have become little more than controlled monopolies, badly in need of reform.

Finally, we are frankly astonished by the Commission's vote to reject a recommendation for withholding Federal CDBG funds from suburbs which refuse to accept a fair share of lower-income housing under an areawide Housing Opportunity Plan. We find it truly remarkable that after coming out so strongly against racism, the Report declines to deal with the very real problems of restricted housing opportunities for the minority poor, problems which the AHOP plans are designed to alleviate.

While we do have our differences with important parts of the Report, we affirm our commitment to the empowerment of neighborhood people to act effectively to promote their own self-interest. We reaffirm our support for the removal of obstacles which unnecessarily impede those efforts, and to the sweeping away of governmentally-created privileges which benefit special interests at the expense of neighborhood citizens. We subscribe to the wise words of Msgr. Geno C. Baroni, Assistant Secretary of HUD for Neighborhoods, Voluntary Action, and Consumer Protection:

> "Many healthy neighborhoods have been and are being destroyed, mostly by government action or inaction. In a steady procession of good intentioned but basically faulted programs initiated by national urban strategists and compounded by faulty local initiative and planning, our city neighborhoods—and all that they have meant for our country and our people—are tragically passing from the scene." The family, the neighborhood, the community used to carry a great deal of the load in building morality. Now they don't because of the tremendous politicization of our social order. We have transferred so much responsibility to the central government, and authority now stems from the involvement of so many state and federal bureaucracies in people's lives, that these basic communities are drying up. The danger arises that more and more people will turn to government as a source of community. This will bring us closer to totalitarianism, to statism. . . We need to devolve more power to the neighborhood communities and to encourage the organization of voluntary self-help groups among the families, churches, and community groups in our neighborhoods."

Representative Joel Pritchard
The Chairman, members and staff of the Commission have labored hard and long on a most difficult task. Neighborhood revitalization and/or preservation is complex, emotional and not subject to easy answers.

Neighborhood problems vary as widely as the socio-economic makeup of each neighborhood. Although there may be common threads of concern, neighborhoods cannot be lumped together. Solutions to these problems must be as broad and varied as the neighborhoods themselves.

The Commission Report offers many recommendations, some of which I endorse, others I cannot accept. My major reservation with the report is its thrust for more federal regulation and more federal involvement—responses which have proven counterproductive so often in the past.

Senator William Proxmire
The Commission has set forth a vast array of recommendations to address the needs of America's neighborhoods. While I do not support every approach recommended by the Commission, I do support the major thrusts of the Commission's recommendations.

One caveat should be noted. While I feel strongly that neighborhood problems are indeed a critical domestic priority, I am compelled to emphasize that in 1979 the most important domestic priority is combatting inflation. Moreover, in my view, an effective anti-inflation program must have as its cornerstone a reduction in Federal spending. I agree wholeheartedly with the Commission that the neighborhoods, the cities and social needs should not bear the heaviest burden, as they did, for example, in the imposition of the moratorium on subsidized housing by President Nixon in 1973. However, housing and other programs affecting neighborhoods are going to have to bear their share of the burden of fiscal restraint. I must therefore oppose at all times all recommendations of the Commission which involve an increased outlay of Federal funds over the amounts recommended by the Carter Administration.

At the same time, I believe there is an overriding need for better targeting of existing funds to the benefit of disadvantaged neighborhoods and low and moderate income persons, and away from less essential uses. We also need to develop methods to encourage and facilitate the private sector in doing a better job in meeting neighborhood needs. The great bulk of the Commission's recommendations are aimed directly at these objectives and I strongly support these major directions of the Commission's report.

Footnotes

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